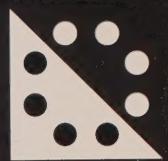


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Annual Report
2004-2005



**Ontario Lottery and
Gaming Corporation**

**Société des loteries et
des jeux de l'Ontario**

TABLE OF CONTENTS

Message from the Minister	1
Letter of Transmittal	2
Message from the Chair	3
Message from the CEO	4
Overview	5
Mission	
Governance	
Board Mandate	
Corporate Values	
Responsible and Sustainable	7
Strategic Considerations	
Social Responsibility	
Organizational Change	
Community Involvement	
Ever-popular, Ever-changing	13
On-line Games	
Sports Gaming	
Infrastructure	
Customer Service	
Instant Games	
Bingo Revitalization	
Celebrations and Amenities	16
Niagara Fallsview Casino Resort and Casino Niagara	
Casino Windsor	
Casino Rama	
Customers and Community	20
Winning Ways	
New and Upcoming	
Financials	23
Management's Responsibility for Annual Reporting	24
Auditors' Report	24
Consolidated Financial Statements	25
Notes to Consolidated Financial Statements	29
Management's Discussion and Analysis	41
Board of Directors	48

MESSAGE FROM THE MINISTER

As Minister of Public Infrastructure Renewal, responsible for the Ontario Lottery and Gaming Corporation (OLGC), I am pleased to present OLGC's 2004–2005 annual report. The gaming industry continues to provide benefits for all Ontarians, contributing to the diversity and strength of our province's economy.

In fiscal year 2004–2005 OLGC generated \$2 billion, which supports provincial programs including the operation of hospitals, charities through the Ontario Trillium Foundation and responsible-gaming initiatives as well as provincial priorities such as health care and education. The corporation's activities are responsible for more than 20,000 jobs directly related to the gaming industry and thousands more in the tourism and hospitality sectors of Ontario.

This year our government announced a new Ontario gaming strategy that focuses on a sustainable and responsible industry. As part of the new gaming strategy, the government has directed the OLGC to:

- enhance the competitiveness of existing gaming facilities and upgrade existing sites to respond to increasing competition
- introduce new technologies with a focus to help revitalize the charity bingo industry, which supports thousands of grass roots not-for-profit organizations across the province.

In support of an increased focus on social responsibility, the OLGC will undertake a number of initiatives to include establishing new customer service centres staffed by problem gambling prevention specialists in commercial casinos. New education and training programs will also be developed for retailers and employees in the socially responsible delivery of services.

As the Minister responsible, I will continue to provide OLGC with clear direction on the future of gaming for the benefit of all Ontarians.



The Honourable David Caplan
Minister of Public Infrastructure Renewal and
Minister responsible for the Ontario Lottery and Gaming Corporation

LETTER OF TRANSMITTAL

The Honourable David Caplan
Minister of Public Infrastructure Renewal
Province of Ontario

Dear Minister:

On behalf of the Board of Directors, I am pleased to submit to you the Annual Report of the Ontario Lottery and Gaming Corporation for the fiscal year ended March 31, 2005.

Yours very truly,



Timothy Reid
Chair
Board of Directors



MESSAGE FROM THE CHAIR

In February 2004, the Ontario Government asked the Ontario Lottery and Gaming Corporation (OLGC) to conduct a thorough market analysis of the Province's gaming industry to assist the Government in deciding on a long-term competitive and sustainable strategy for the industry.

The Government's comprehensive gaming strategy, released in January 2005, builds on the in-depth assessment carried out by the OLGC. At the core of the strategy is the belief that long run sustainability requires a socially responsible gaming industry.

The specific policy directions given to us, as the Government's operating agency, include: no video lottery terminals (VLTs) in neighbourhood bars and restaurants, no slot machines in bingo halls, no additional racetracks with slot machines (beyond current commitments), no additional commercial or charity casinos and no provincial involvement in internet gaming.

Within this strategic public policy context, the Board of Directors was also instructed by the Honourable Joseph Cordiano, to meet head-on the challenges of Ontario's mature and highly competitive gaming market place – especially competition from the border casinos in the United States.

OLGC conducted an intensive assessment of Windsor's US/Canadian regional market. The Board of Directors, after assessing the risks of current border restrictions, the decrease in the value of the US dollar for American visitors and increased competition from US casinos, recommended to the Government a capital investment plan for a highly competitive expansion of non-gaming amenities at Casino Windsor. The Government subsequently decided to undertake these substantial improvements.

Of the 7.2 million adults in Ontario who gambled in 2002, 0.6 per cent were addicted to gambling, 2.1 per cent were at moderate risk and 3.8 per cent were at low risk of becoming addicted, according to Statistics Canada's report *Perspectives* (June 2004). These issues continue to be at the top of our agenda. As part of the Government's broader Responsible Gaming Strategy, the Board, with the leadership of our CEO, Duncan Brown, is overseeing the implementation of additional specific initiatives in its operations to meet these serious problems.

Our initiatives include the new Responsible Gaming Code of Conduct, formally adopted on March 31, 2005, at which time I signed Memoranda of Understanding (MOU) with the Centre for Addiction and Mental Health, the Ontario Problem Gambling Helpline, the Ontario Problem Gambling Research Centre, and the Responsible Gambling Council. These MOU recognize the need to work together to identify new ways to encourage safe gambling behaviours and to discourage excessive play. Other innovative initiatives are contained in this Annual Report.

In addition to promoting an overriding and comprehensive competitive strategy, we were pleased to address specific business development and operational transparency requirements of the Corporation. We have addressed issues of risk management – approving a new mandate for the Audit and Risk Management Committee that will assure best practices and improve accountability to OLGC's single shareholder, the Province of Ontario.

Our bottom line financial results for 2004–2005 were \$5.9 billion in total revenues and \$1.7 billion in net income.

I want to recognize the collective efforts of all of the directors who have served this year, while giving special thanks to Cheryl Byrne, Nick Perpick, Gary Reinblatt and Ravi Shukla, whose terms ended during 2004–2005. Their expertise and talents have benefited both the Corporation and the people of Ontario, and their contributions are greatly valued. Lou Panontin continues to serve along side newly appointed directors Ron Fotheringham, Michelle Samson-Doe, Beverly Topping, Peter Philip Mercer and Perry Anglin.

This year has seen the refinement of our operations and continued innovation in the ways that we can serve our communities. The leadership of Duncan Brown through this period of assessment and accomplishment has garnered the respect of the Board of Directors and provides confidence in the work of the Corporation in the coming years.



Timothy Reid
Chair
Ontario Lottery and Gaming Corporation

MESSAGE FROM THE CEO

I am pleased to report on this year of analysis, changes, anniversaries and accomplishment. Revenues increased by more than \$100 million in 2004–2005 over the previous fiscal year.

Staff undertook a market assessment that culminated in the announcement of a Comprehensive Gaming Strategy for the province of Ontario in January 2005. We celebrated the 10th anniversary of Casino Windsor and the long-anticipated opening of Niagara Fallsview Casino Resort – marking the completion of an era of extraordinary growth.

Now, in the context of a mature gaming entertainment industry, we have embarked on a four-year plan for operational excellence that focuses on sustaining revenue and optimizing profit to derive the greatest net benefit for the people of Ontario. Simultaneously, OLGC has undertaken numerous enhancements to its responsible-gaming program this year as part of the province's broader Responsible Gaming Strategy. These initiatives and collaborative activities culminated at the end of the year in the public presentation of our Responsible Gaming Code of Conduct in March 2005.

With clear priorities and direction in place, OLGC's Business Optimization Team, which was established in January, will play a key role in realizing our four-year plan in the context of the overall gaming strategy. It is such planning and responsiveness that has made this year's revenue increase possible despite shortfalls vis-à-vis projections in some key areas – most significantly in commercial casinos. Disruptions to tourism represented the most significant challenges and continue to affect projected earnings. While Casino Rama surpassed income projections by more than 16 per cent, the situation faced by border casinos produced a different story. Slowdowns at border-crossings combine with a strengthened Canadian dollar and stiff US competition to affect the bottom line at both Windsor and Niagara Falls casinos.

The introduction of no-smoking by-laws in many Ontario communities has affected nearly all gaming sites – as facilities continue to adjust to meet the shifting and sometimes conflicting demands of customer preferences and by-law compliance.

In the Lotteries division, the cancellation of the professional hockey season had a direct impact on Sports lottery sales.

Nonetheless, these issues are being addressed directly. Adjustments were made this year to offset losses and redirect resources for the best results.

OLGC's Business Optimization Team is assessing all aspects of operations and directing efforts designed to reduce costs, improve competitiveness and build on strengths in each business line.

We have introduced new programs for management development – investing in people for sustainability and effectiveness. We continue to deliver infrastructure appropriate for supporting our business. We also recognize the need to strengthen relationships with partner organizations, such as commercial casino and bingo operators and the Interprovincial Lottery Corporation. This year OLGC refocused efforts toward maintaining and improving these collaborative alliances to ensure optimal effectiveness in today's highly competitive gaming climate.

The current four-year plan identifies corporate priorities that will further assist in maximizing efficiencies and optimizing profits. The thorough market analysis completed this year has provided essential background for our newly appointed Chief Marketing Officer who oversees ongoing consumer research and corporate branding strategies – integrating marketing efforts and assessing their impact to ensure that they are effective in meeting our business development goals.

The work of the OLGC has been made easier by the leadership of our Board of Directors. I appreciate the strong working relationship that we have established. I also want to acknowledge my appreciation of our executives who have supported change, developed initiatives and are now overseeing their implementation.

As we move into the next fiscal year, our priorities are clear and our team is strong. OLGC's staff is its number one asset – skilled, inventive and adaptable. This staff will make the realization of our comprehensive responsible-gaming program possible.

Together, we will work to optimize returns. We will ensure that we are doing what we must and doing it effectively – investing in our staff and managers, strengthening relationships with our partners and optimizing returns for the people of Ontario.



Duncan Brown
CEO
Ontario Lottery and Gaming Corporation

The Ontario Lottery and Gaming Corporation directly employs more than 8,300 people across Ontario, with another 13,000 employed at its resort-destination casinos. The Corporation is responsible for 26 gaming sites and the sale of lottery products at approximately 10,600 retail locations. The Government of Ontario created OLGC to provide gaming entertainment in an efficient and socially responsible way that would optimize economic benefits for the people of Ontario.

The *Ontario Lottery and Gaming Corporation Act, 1999* requires that net revenue from lotteries, charity casinos and slots at racetracks be made available for various purposes including the provision of health care, programs for problem gambling, and the promotion and development of physical fitness, sport, recreation and cultural activities throughout the province. In addition, revenues totalling \$100 million are made available to the Ontario Trillium Foundation for distribution to charitable and non-profit organizations every year.

MISSION

In a competitive entertainment industry, OLGC is a quality provider of attractive, controlled gaming – engaging our employees and related organizations in serving Ontario's citizens and tourists in a socially responsible manner and generating benefits for government projects, charities and a variety of other stakeholders in accordance with government policy and direction.

GOVERNANCE

The legislative authority of the Corporation is set out in the *Ontario Lottery and Gaming Corporation Act, 1999*. Classified as an Operational Enterprise Agency, OLGC has a single shareholder, the Government of Ontario, and in fiscal 2004–2005 reported to the Minister of Economic Development and Trade through its Board of Directors.

The Chair and other members of the Board of Directors are appointed by the Lieutenant Governor in Council and come from various communities across the Province of Ontario. Effective March 31, 2005, the Board of Directors comprises Timothy Reid of Toronto (Chair), Perry Anglin of Mindemoya, Ron Fotheringham of Woodview, Peter Philip Mercer of London, Lou Panontin of Windsor, Michelle Samson-Doe of Richmond Hill and Beverly Topping of Toronto.

BOARD MANDATE

The Board of Directors sets policy for the Corporation and counsels the Chief Executive Officer and senior executives, who oversee the Corporation's business operations. The Board's mandate is to direct management with a view to optimizing the Corporation's overall performance and increasing shareholder value. It is the Board's responsibility to:

- establish a well-defined strategic planning process and set strategic direction
- approve the annual business plan as well as operating and capital budgets
- define and assess business risks
- review the effectiveness of internal controls in managing risks
- appraise the performance of the Chief Executive Officer
- oversee a code of conduct that will ensure the highest standards in dealing with customers, suppliers and staff, with due regard to ethical values and the interests of the community-at-large in all corporate endeavours
- track overall performance of the Corporation
- remain informed and provide input as required concerning communications with the Government of Ontario and other stakeholders
- ensure compliance with key policies, laws and regulations.

Board Committees

The Board of OLGC operates with and through three permanent working committees.

Governance Committee

The Governance Committee assists the Board in developing and monitoring governance policies and practices. This committee helps identify policy areas for review and presents recommendations to the Board for consideration in order that the Board may ensure the Corporation's adherence to the highest standards in corporate governance. Effective March 31, 2005, this committee includes Beverly Topping (Chair), Perry Anglin, Peter Philip Mercer and Timothy Reid.

Audit and Risk Management Committee

The primary function of the Audit and Risk Management Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and monitoring the Corporation's financial statements, its internal controls over financial reporting, its capital expenditure program, its risk management program and the legal and ethical compliance systems that have been established. Composition of the committee, effective March 31, 2005, is Lou Panontin (Chair), Ron Fotheringham, Michelle Samson-Doe and Timothy Reid.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee assists in ensuring that the Corporation has sufficient organizational strength at the senior management level to achieve its short- and long-term goals. This committee also recommends, for Board approval, the compensation and benefit plans for senior management. Composition of the committee, effective March 31, 2005, is Ron Fotheringham (Chair), Perry Anglin, Peter Philip Mercer and Timothy Reid.

CORPORATE VALUES

The Corporation's values guide employees in their work with customers and stakeholders. In all we do, we are asked to realize and reflect clearly identified values:

- RESPECT – treat each other, our customers and our stakeholders with respect and dignity, recognizing the contributions of each person
- OPENNESS – actively share ideas and information within the bounds of appropriate confidentiality
- INTEGRITY – conduct our business in an ethical, fair and honest manner
- POSITIVE WORK ENVIRONMENT – foster a dynamic, flexible work environment, enabling all employees to develop and make a full contribution
- PUBLIC RESPONSIBILITY – deliver gaming entertainment to maximize economic benefits in a socially responsible manner
- CUSTOMER SERVICE EXCELLENCE – focus on our customers, providing value, fun and entertainment, while anticipating and responding to client needs
- INITIATIVE – innovate and champion disciplined, continuous improvement
- JUDGMENT AND PROFESSIONALISM – ensure that decisions and actions are timely, informed and aligned with corporate objectives.

RESPONSIBLE AND SUSTAINABLE

More than 20,000 jobs in Ontario are directly related to gaming, with thousands more spin-off jobs in the tourism and hospitality sectors. OLGC works with more than 10,600 independent retail outlets across the province and this year oversaw the operation of two on-line and one INSTANT lottery at the national level as well as a variety of on-line and instant provincial lotteries, three province-wide bingo games, four commercial casinos, six charity and aboriginal casinos and 16 slot facilities at racetracks with an additional two facilities in development.

Since the province opened its first casino in Windsor in May 1994, Ontario's gaming industry has experienced a decade of rapid growth – including additional casinos, charity casinos and an initiative to introduce slot machine facilities at Ontario's 18 licensed horseracing tracks. With that era of growth behind us, OLGC has now achieved an age of maturity. This is a time when we can shift focus – to assess and address the challenges we face and to reflect on and refine our strengths.

In 2004–2005, revenue from OLGC gaming facilities totalled almost \$3.6 billion, with approximately \$1.6 billion generated from commercial casinos, more than \$479 million from the charity casinos, and more than \$1.4 billion from slots facilities at racetracks. Lotteries and Bingo contributed an additional \$2.3 billion to gross revenues. While total revenues increased by more than \$120 million over the previous fiscal year, there were set-backs in specific sectors that represent ongoing challenges.

STRATEGIC CONSIDERATIONS

OLGC operates within a changing landscape and this wider gaming environment has a direct impact on operations and profits. Significant factors this year included the cancellation of the 2004–2005 professional hockey season, smoking bans in many communities, a strike at Casino Windsor that lasted several weeks and various issues that affected casino visitors from the US.

Smoke-free Sites

While compliance with no-smoking by-laws has been a significant consideration and challenge for gaming-site management throughout the province, OLGC joins the Government of Ontario in its commitment to make public and work places smoke-free.

All OLGC sites currently comply with municipal by-laws of their individual host communities. However, variations in municipal no-smoking by-laws have produced a range of effects and varied patron responses from site to site. The Government of Ontario's new provincial Smoke-Free legislation will level the playing field within the province and business is expected to rebound over time, while border sites will still address competition from facilities in other jurisdictions.

The new legislation will mean that all indoor public spaces must be smoke-free by May 31, 2006. Designated smoking rooms, like those constructed for Brantford Charity Casino, Slots at Flamboro Downs and Mohawk Racetrack will close by this date. OLGC continues to respond to the collective will of its host communities as well as the comfort and enjoyment of its patrons.

Legal Matters

Disagreements among the various stakeholders and beneficiaries of Casino Rama are having an impact on casino operations and the relationships between the parties. Several of these disputes have given rise to lawsuits in which OLGC is named as a defendant party. These lawsuits will not likely be decided for some time.

Border Issues

Slowdowns at border crossings, the rising value of the Canadian dollar and increasing competition from US border casinos have combined in recent years to create persistent challenges for gaming facilities that appeal to US customers.

Assessment

This year OLGC undertook a comprehensive market assessment of Ontario's gaming industry to help the government develop a public policy direction for the gaming industry. The assessment was released in January 2005.

Working with outside consultants, OLGC reviewed its operations throughout the province in the context of a commitment to social responsibility and optimal net economic benefits to the province.

There were several key conclusions:

- Provincial gaming markets will not support facilities beyond current commitments.
- Sustaining rather than growing markets is now the principal focus of our business.
- Adjustments can be made on a facility-by-facility basis that will maximize revenues and contribute to local economies.

Comprehensive Strategy

In January 2005, the Government announced a comprehensive gaming strategy that includes four key directives:

- The number of gaming sites in Ontario should be maintained at the current 26 plus two slot facilities at racetracks planned for development.
- Development will focus on sustainability and optimization of economic benefits for customers, taxpayers and local communities.
- The addition of non-gaming amenities at Casino Windsor and other properties will be explored in order to maximize the value of these facilities to potential customers and local communities.
- There will be no video lottery terminals (VLTs) in neighbourhood bars and restaurants, no slot machines in bingo halls and no provincial involvement in Internet gaming.

Ontario's new gaming strategy focuses on social responsibility and a commitment to the competitiveness of the province's gaming industry. Responsibility and sustainability are the twin pillars that support our business and social goals for the people of Ontario.

OLGC will direct its business efforts to enhancing the competitiveness of existing facilities and to putting social responsibility front and centre in the management of gaming in Ontario.

These efforts will include upgrading current sites to respond to increased competition and launching an e-bingo pilot project to revitalize the charity bingo industry, which supports thousands of grassroots not-for-profit organizations. These activities reflect OLGC's commitment to improving the net economic benefit for the people of Ontario.

SOCIAL RESPONSIBILITY

Social responsibility is a key component of OLGC's delivery of gaming entertainment in Ontario. This includes responsibility for a sustainable industry that benefits the communities and the people of Ontario as well as responsibility to our employees, associates and patrons.

In addition to its more general economic contribution, OLGC is an active corporate citizen – contributing to the province and communities in which it operates. OLGC provides specific support to community-based charities and generates more than \$2 billion annually for provincial priorities such as healthcare and education. The Government of Ontario dedicates two per cent of gross slot machine revenue from charity casinos and racetrack slot facilities to problem-gambling prevention, education, research and treatment.



**WHEN YOU ARE
OVER YOUR LIMIT...**

HELP IS AVAILABLE

*Know your limit,
play within it!
The Ontario Problem
Gambling Helpline
1 888 230-3505*

www.OLG.ca
For more information
visit the Winner's Circle
pour renseignements
en français.

Responsible Gaming

OLGC's responsible-gaming program has been developed and implemented as one part of the broader Responsible Gaming Strategy of the Government of Ontario. With an allocation of more than \$36 million in 2004–2005, Ontario's responsible-gaming program is among the best funded in North America.

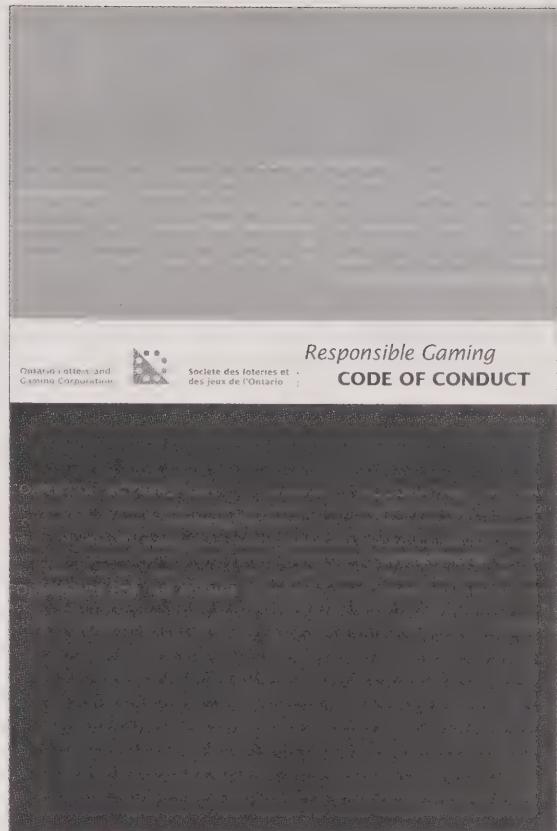
The Ministry of Health and Long-Term Care uses these funds to support a range of programs that focus on prevention, research, treatment and public awareness of problem gambling:

- Centre for Addiction and Mental Health
- 49 additional problem-gambling treatment agencies
- Ontario Problem Gambling Helpline
- Ontario Problem Gambling Research Centre
- Responsible Gambling Council
- prevention and awareness initiatives of eight aboriginal and First Nations groups
- prevention programs aimed at youth, in partnership with the YMCA.

Program Improvements

This year the government announced plans for new customer service centres staffed by problem-gambling-prevention specialists in our commercial casinos. Education and training programs for retailers and employees are being developed to ensure the responsible delivery of products and services. In addition, the province committed a total of \$4 million over the next two years for public awareness campaigns. OLGC developed a new brochure, *When You Are Over Your Limit Help is Available*, with input from the Centre for Addiction and Mental Health, Ontario Problem Gambling Helpline, Ontario Problem Gambling Research Centre and Responsible Gambling Council. The brochure helps to identify problem behaviours and provides a list of treatment centres throughout Ontario. The brochure is available at all gaming sites and participating Bingo Centres as well as on-line at OLGC.ca.

During March 2005, OLGC also participated in the promotion efforts for Within Limits: Problem Gambling Prevention Month – an important initiative of the Responsible Gambling Council (RGC). Funded by the Ministry of Health and Long-Term Care, RGC's goal is to increase awareness surrounding the risks and prevention of problem gambling.



OLGC proudly supported the campaign – displaying the Within Limits poster in its gaming facilities and at select lottery retailers across the province. In addition to posters and brochures, there were local advertising campaigns, kick-off events and interactive information booths manned by RGC representatives at 12 Ontario gaming sites.

Responsible Gaming Code of Conduct

OLGC launched its Responsible Gaming Code of Conduct in 2005. The Code was formally adopted at year-end, on March 31, at a public signing of a series of Memoranda of Understanding with the Centre for Addiction and Mental Health, Ontario Problem Gambling Helpline, Ontario Problem Gambling Research Centre and Responsible Gambling Council. The memoranda recognize the need to work with other organizations to identify new ways to encourage safe gaming behaviours and discourage excessive play.

The Code clearly sets out commitments, goals and actions and will act as a touchstone for all future initiatives and business practices.

The action plan builds on current programs with a focus on three key areas:

- Corporate Commitment
- Information and Education
- Responsible Gaming Environment.

Working in collaboration with other responsible-gaming partners, OLG has stepped up efforts to reduce the risk of problem gambling in Ontario – strengthening, integrating and coordinating OLG's corporate commitment to responsible gaming. The program strives to generate greater awareness of the signs of problem gambling and to assist those in need to find help.

The Responsible Gaming Code of Conduct affirms our commitment to providing quality entertainment in a responsible manner. It is available on-line at OLG.ca

Amber Alert

In partnership with the Ontario Provincial Police and the Ontario Association of Broadcasters, OLG made arrangements this year to deliver Ontario Amber Alert messages on customer display screens at more than 8,600 on-line lottery retail locations across the province.

Police issue an Amber Alert in the case of a confirmed instance of child abduction, when they believe that an immediate broadcast alert will help in locating the child. They provide broadcasters with all known information about the missing child, the abductor or any vehicle involved in the incident.



Participation in Amber Alert messaging will be operational in April 2005. When police issue an alert, OLG lottery customer screens will display:

- a generic Amber Alert video message, preempting promotional presentations
- a three-line text with details of the alert, running along the bottom of the screen.

The Amber Alert system began in the US where it has resulted in the safe return of more than 50 abducted children. Ontario's Amber Alert program began in January 2003.

ORGANIZATIONAL CHANGE

Business Optimization

Although the past decade's rate of growth has been an impressive achievement, OLG's focus has now shifted to maintaining market share and refining practices in ways that will ensure the optimization of provincial revenues and a continued commitment to social responsibility.

Recognizing this maturity of the Ontario gaming marketplace, OLG has initiated a Business Optimization Project to ensure that business processes and structure are on target for a successful future.

A group of senior managers from various departments began meeting in January 2005 with a mandate to gather and assess information on current operations and to review financial reports and benchmarks. Whether scaling back in some areas or expanding in others, the team will make recommendations that improve efficiency and effectiveness.

Human Resources

The Human Resources (HR) division continues to assess, develop and deliver staff training and development programs across the corporation. The hiring and retention of qualified staff is key to the success of any service-oriented undertaking, and the development of talent from within contributes to a positive staff environment and operational continuity.

To provide a greater consistency in the delivery of HR services across the organization, the Corporate Human Resources and site-based Human Resources departments were amalgamated this year. To

accomplish this, the HR division was structured into discrete operational groups and program areas. This centralized delivery model allows the division to learn from the best practices in place across the organization.

Tomorrow's Leaders

The OLGc Gaming Division and the HR Regional Management team developed a comprehensive process to ensure that employees are fully prepared to fill senior level vacancies as our business continues to evolve. In the fall, gaming employees were invited to participate in a challenging process to assess their potential as leaders. This resulted in 11 key appointments this year. Data will continue to be used to identify employees who, given appropriate development opportunities, will be able to assume future managerial vacancies.

Corporate Learning

This year also saw the creation of a Leadership and Development Steering Committee, the development of new learning models for both employees and management, and the publication of a comprehensive learning catalogue promoting a broad cross-section of general business skills courses.

While pursuing partnerships that leverage the resources and expertise required for the highest quality training possible, the team implemented several new initiatives. Key among these were orientation and leadership development programs and a Human Rights and Workplace Harassment program.

The latter program was the focus of this year's corporate risk-management training. An interactive workshop was designed to educate all managers and employees about their rights and responsibilities under the Ontario Human Rights Code and inform them of OLGc's own harassment policy. More than 90 per cent of eligible employees had received this training by the end of the fiscal year.

In the leadership training category, a new program, Launch Pad to Success, for managers and supervisors was established through a strategic partnership with the Rotman School of Management (University of Toronto). Since December 2004, approximately 100 managers and supervisors have benefited from the program.

VP, Security and Surveillance

The new position of Vice President, Corporate Security and Surveillance is responsible for managing investigations conducted by OLGc resources and other security matters. Gaming site surveillance managers have a dotted-line reporting relationship to this VP, thereby ensuring the requisite independent accountability in our gaming operations.

Chief Marketing Officer

To support OLGc's new business priorities a Chief Marketing Officer (CMO) position was also established this year. The CMO is responsible for consumer research and corporate marketing and for liaison with commercial casinos' marketing initiatives. The position brings a strategic focus to the Corporation's marketing resources and expenditures. The CMO will also deliver OLGc's Responsible Gaming Strategy. This function ensures that plans are effective, efficient and integrated and that they reflect and serve the business optimization goals of the Corporation.

VP, Development

The new position of Vice President, Development demonstrates OLGc's commitment to ensuring Ontario's gaming facilities remain competitive and OLGc's capital investments are managed effectively. This position will lead OLGc's program of facility assessment including the Casino Windsor expansion, the establishment of the slots facilities at the two remaining racetracks and improvements at Casino Niagara. The VP, Development will serve as the principal contact with OLGc's commercial casino partners.

Technological Innovation

Technological advances form an important base for optimizing net economic benefits in the operations of OLGc. And the maintenance of secure and fully operational, integrated data systems are key to both our corporate responsibility and our success.

During renovations at the corporate data centre, the systems for casino, lottery, bingo operations and head office were transferred to an alternate data centre for 55 weeks. This ability to remain fully operational from either site is an important demonstration of the operational continuity and security of OLGc's information systems.

Technology-based improvements to games, marketing and community services in lottery and gaming initiatives as well as enhancements to OLG's telephone voice-response system and video-conferencing capacity have contributed additional net benefits this year – improving customer service, increasing staff effectiveness and reducing travel costs.

COMMUNITY INVOLVEMENT

At the corporate level and in our particular operations, OLG enjoys a culture of community involvement and charitable activity. In addition to revenues generated for the provision of health care and development of physical fitness, sport, recreation and cultural activities, OLG staff and associates play an active role in fundraising and other socially responsible initiatives within their communities.

Flood and Tsunami Relief

OLG and its employees have a strong tradition of participation and charitable giving within their communities.

This year, that spirit of generosity was engaged in response to the plight of 70,000 Peterborough residents who were driven from their homes by a flood in mid-July. Support of fundraising events and a food drive organized by Big Link Bingo partners raised more than three tons of goods. Then, staff generosity reached to the other side of the globe when news of Tsunami devastation reached us in December. In the months following the disaster, OLG raised \$22,000 through payroll

deductions and an additional \$33,000 through various events during a special four-week campaign. With a \$50,000 corporate contribution, the total donated to the Red Cross came to more than \$100,000.

Federated Health and United Way Campaigns

OLG's Federated Health Committee reports that employees exceeded their fundraising target by 40 per cent – raising more than \$170,000 for Federated Health Charities. Funds support 15 Ontario-based health charities, including the Alzheimer Society of Ontario, the Heart and Stroke Foundation of Ontario, the Osteoporosis Society of Canada, the Crohn's and Colitis Foundation of Canada and others. Corporate employees also participated in the Canadian Breast Cancer Foundation's Run for the Cure in October among other community-based charitable activities.

OLG's Toronto and Sault Ste. Marie campaigns for United Way reached new heights this year as well, with Toronto employees raising almost \$34,000 and the Sault Ste. Marie campaign netting more than \$57,000 – exceeding last year's total by almost 25 per cent and winning recognition for the Sault Ste. Marie committee, which was awarded the 2004 Spirit Award for Outstanding Employee Campaign.

Our commercial casinos also remain consistent leaders in their communities – from United Way campaigns to numerous other events. This year, the Niagara Fallsview Casino Resort and Casino Niagara teamed up to raise almost \$300,000 in a record-breaking United Way campaign.

AND THE AWARD GOES TO...

OLG... the proud recipient of the prestigious **2004 Canadian Award for Training Excellence**. The award was presented by the Canadian Society for Training and Development in recognition of the training program that supports OLG's Fairness Appeal Committee – a group of employees elected by their peers to ensure fair, just and equitable treatment of staff.

At the Canadian Project Excellence (CPEX) Awards and Conference, OLG's Lottery Division received the **2004 CPEX Award for Best Practices** in recognition of the highest degree of merit and ingenuity in the realization of the Ex-M Lottery Terminal Program, which spanned four years and represented the largest investment ever in OLG's retail network.

CPEX Awards acknowledge outstanding performance and achievement in applying recognized best practices in project management.

EVER-POPULAR, EVER-CHANGING

There is nothing like a makeover to deliver a fresh outlook. OLGC took that to heart this year in offering changes and new options to keep on-line games fresh for players.

ON-LINE GAMES

Bigger and Better

The new and improved LOTTO 6/49 met with great success this year. Launched May 30, 2004 with the first draw on June 2, the new prizes and new format mean more prizes and bigger jackpots more often.

In partnership with the Interprovincial Lottery Corporation, OLGC felt LOTTO 6/49 needed a change after its successful 26-year run. The enhanced LOTTO 6/49 was an immediate hit with players as evidenced by a 63 per cent increase in sales nationwide during the three months following its launch and an eight-per-cent increase in the number of transactions in Ontario. The new \$2 price clearly did not dissuade players as the number of \$9-million-plus jackpots more than quadrupled compared to the same period in the previous year. In August the jackpot reached \$29.4 million – LOTTO 6/49's highest ever.

While the changes made LOTTO 6/49 a big winner for OLGC and players alike, the on-line lottery improvements didn't stop there.

As of October 6, 2004, when lottery players said YES to ENCORE, they were saying YES to a \$1-million top prize. The new game has added a seventh digit and, for the same \$1-per-play price, players can now win up to \$1 million by matching all seven digits. While overall odds of winning an ENCORE prize remain the same, ENCORE delivered more to its players as 15 became millionaires this fiscal year. ENCORE can be played with LOTTO 6/49, LOTTO SUPER 7, ONTARIO 49, PICK-3, DAILY KENO and LOTTARIO.

LOTTERY SALES AND PRIZES BY GAME AS OF MARCH 31, 2005

Product Groupings	Number of Games	Sales (\$ millions)	Percentage of Total Sales	Prizes (\$ millions)
On-line games	14	\$ 1,541.0	66.0 %	\$ 771.1
Sports games	3	183.2	7.8 %	115.6
INSTANT games	79	588.0	25.2 %	344.3
BINGO gaming	3	21.7	1.0 %	14.1
Totals	99	\$ 2,333.9	100.0 %	\$ 1,245.1

Goings and Comings

After a little more than four years, declining sales led OLGC to retire WINNER TAKE ALL on March 14th. Originally launched in April 2000, WINNER TAKE ALL offered a minimum \$5,000 prize to the winning ticket holder while retailers who sold the winning ticket were eligible for a \$1,000 bonus commission.

After a successful two-year run, the weekly televised draw program Ontario Lottery Tonight aired its final program March 30, 2005. While news stations across Ontario will continue to broadcast winning lottery numbers, OLGC will also introduce Internet web-casts of the draws at OLGC.ca. The OLGC Business Innovation group is exploring new television initiatives to complement our exciting lottery products.

SPORTS GAMING

OLGC's sports division contended with several challenges and still managed a successful year. The re-launch of PRO*PICKS and addition of new options partially offset the effects of the cancelled professional hockey season.

*PRO*PICKS*

In September 2004, players experienced a new and exciting PRO*PICKS game with new play options for PICKS, PROPS and POOLS. PRO*PICKS has produced more than \$22 million in sales this fiscal year. PICKS' major improvement is that the odds, once posted, will not change. Players will always know the potential prize at the time of purchase. PROPS is a new card option that allows players to wager on multiple football events, such as the number of fumbles, sacks or

completions. POOLS is played by selecting the winning team or players. Those with the correct selections share in the prize pool. Depending on the sports season, the number of cards available each week can vary with all options available on one newly designed selection slip.

The development of this PRO*PICKS initiative was a complex cross-divisional project requiring significant development and testing. The newly enhanced product has been extremely well received by consumers and retailers alike. As our retail partners say, "You've got a winner with this one!"



Pro hockey

Our sports game operation was hit this year with cancellation of the 2004–2005 professional hockey season. A number of enhancements to sports products have partially offset this loss. These enhancements include the redesign of some sports games, the addition of new sports (golf, car racing) and increased college basketball and other events. Although the enhanced PRO*PICKS game allowed sports customers to shift their wagering to football, the overall sports-game sales generated \$29 million less than last fiscal year – representing a decline in sports profits of approximately \$10 million.

POINT SPREAD

More Sporting Chances

PRO•LINE may have been the game most affected by the lost hockey season, but that didn't stop the improvements. OLGC now offers near-around-the-clock sports monitoring for improved customer service. The additional play options of PRO*PICKS – including PROPS like interceptions, fumbles and sacks – have meant OLGC's Sports Operations had to be ready to respond quickly to situations that could affect approaching sports events including player suspensions, injuries and even changing weather conditions.



INFRASTRUCTURE

OLGC continues to move ahead with plans for a new lottery network in the near future. In February 2005, OLGC issued a Request for Proposals for a new digital network for its lottery terminals. Having completed installation of its new lottery terminals in April 2004, OLGC determined its next step would be an upgrade to a digital network that would allow terminals to fully capitalize on future opportunities. A digital network connection will increase reliability and improve performance by reducing communication time between the terminal and central gaming system. Approximately 8,600 retailers sell on-line products and the new system is expected to be in place by 2007.

CUSTOMER SERVICE

OLGC has been preparing to pilot self-serve Ticket Checkers in select retailer locations in spring 2005. The self-service ticket-verification devices will confirm for customers whether their on-line tickets are winners. During the pilot program 250 Ticket Checkers will be installed in lottery retailer locations throughout Ontario.



High-volume retailers have expressed particular interest in the device, which is expected to reduce line-ups in the immediate sales area during peak periods. Ticket Checkers cannot pay out prizes or be used for sales. In accordance with strict store-selection criteria, the Ticket Checker will always be located in view of the retailer in order to prohibit use of the device by minors and will prominently display stickers with the 18+ message.

INSTANT GAMES

Following up on the success of last year's EXTRAVAGANZA, OLGc partnered with the Interprovincial Lottery Corporation to offer a second national INSTANT game, SPECIAL 7. The popularity of INSTANT games continues as the Lottery division maintains interest and excitement by introducing new games and improving customer favourites.

SPECIAL 7

With a \$7 price point and a \$40-million prize pool, SPECIAL 7 is a unique offering. The game was launched on February 28, 2005 in all Canadian jurisdictions and ticket sales in Ontario alone were \$10.7 million by the end of the fiscal year. The game features seven play areas where consumers can scratch and win cash and free-ticket prizes. Overall odds of winning any prize are 1 in 3.38. Tickets will be available for a limited time.

ONTARIO's BIG GAME

September's launch of ONTARIO's BIG GAME made history with its \$5-million top prize – the largest top prize of any INSTANT game in Canada. The \$10 ticket came in a folded book, offering four distinct playing areas and overall odds of 1 in 6 to win.

As the popularity of INSTANT games continues, OLGc will continue to provide exciting new options for players.

BINGO REVITALIZATION

Ontario's charitable bingo industry has endured significant challenges in recent years. The important role that it plays in supporting thousands of not-for-profit organizations throughout the province made the revitalization of Bingo a central part of Ontario's new gaming strategy. In January, the Minister of Economic Development and Trade approved the launch of a Bingo Revitalization Pilot test. Planning is underway to test a new bingo entertainment experience that will introduce e-bingo technology, upgraded facilities and competitive customer service. The program will give players a choice of playing bingo on paper, through hand-held devices or on tabletop units. In addition, a new electronic system will improve the management and administration of bingo games.

New technology is only one component of the charitable bingo revitalization plan. Market research in Ontario and experience in other jurisdictions also show the need for excellent customer service and high-quality facilities. This pilot project involving up to five sites will test a package of improvements and customer-service initiatives that will help to sustain and grow an industry that supports thousands of community-based, not-for-profit organizations across the province.

The Bingo Revitalization Pilot was developed in co-operation with the industry at its request. Because under Canadian law only provincial governments can operate electronic gaming, the e-bingo initiative must be operated by OLGc. The Corporation is working closely with its bingo partners, municipalities and the Alcohol and Gaming Commission of Ontario during the pilot's development and planning process.



CELEBRATIONS AND AMENITIES

Commercial casinos in Ontario had a year marked by achievements and anniversaries. After three years of development and construction, the \$1-billion Niagara Fallsview Casino Resort opened. Casino Windsor celebrated its tenth anniversary. Across the province, established casinos continued to enhance services including openings of poker rooms that offer a variety of games.

The hard work paid off with revenues of almost \$1.6 billion – proving that OLG's commercial casinos are rising to the competitive challenges they face and laying the ground for an increasingly competitive future. Planning began this year for resort-based improvements that will place these facilities in the highest category of vacation and entertainment destinations.

NIAGARA FALLSVIEW CASINO RESORT AND CASINO NIAGARA

With the debut of the Niagara Fallsview Casino Resort, the OLG is building on the success of Casino Niagara. The two casinos combine to offer tourists to the Niagara region a host of options for gaming, entertainment and spa services as well as food to tempt any palate.

Fallsview Gala Opening

Niagara Falls witnessed a new world of wonders when Niagara Fallsview Casino Resort held its Gala Opening on June 8, 2004. Legendary Canadian crooner, Paul Anka was on hand to serenade 6,000 invited guests as this fabulous new resort destination showed off its incredible amenities.



Fallsview's 200,000-square-foot casino operates 24 hours a day, offering players 142 gaming tables and more than 3,000 slots. But the entertainment does not stop there. The Avalon Ballroom – a state-of-the-art 1,500-seat theatre – will accommodate everything from headline performers to dinner theatre and sporting events.

Fallsview's 30-storey hotel has 368 guest rooms and 85 suites – all overlooking the magnificent Horseshoe Falls. Guests can indulge at the luxurious health spa and fitness centre or at any of the ten dining and food facilities. Meeting, exhibition and retail space make Fallsview a full value convention and vacation destination.

The luxurious complex raises the bar once again – bearing witness to OLG's commitment to quality operations and meeting the expectations of the most discerning players.

MEGA BUCKS Jackpot Record

Before its six-month anniversary, Niagara Fallsview Casino set a new Canadian slot jackpot record with a \$5.7 million win for a Toronto tax accountant on October 30th. The MEGA BUCKS slots system links slots in eleven OLG locations – permitting pooled jackpots to grow. To date Fallsview and Casino Niagara have given away more than \$17 million in MEGA BUCKS jackpots.

Upping the Ante

Not content with having the most luxurious hotel and casino complex, Niagara Fallsview Casino also opened a new poker room January 10, 2005 and held a charity poker tournament on January 15th. While the celebrity tournament attracted many sports and television stars, the Hospital for Sick Children in Toronto was the big winner when the tournament winner named it as his charity. The tournament generated considerable media coverage, including the cover of Canadian Poker Player magazine and \$5,000 for the Hospital for Sick Children.

Going to the Chapel!

Long famous as the Honeymoon Capital of the World, Niagara Falls took the next logical step when Niagara Fallsview Casino Resort opened its destination wedding chapel on February 13, 2005.

Two hundred seventy casino associates and their spouses renewed their vows in the first wedding chapel in a Canadian casino facility. The next day – Valentine's Day – a couple from the Muskoka community of Bala became the first couple to be officially married in the chapel.

Entertainment

Niagara Fallsview Casino Resort celebrated New Year's Eve with the largest party in Canada, broadcast coast-to-coast. Fallsview hosted 50,000 people in Niagara's Queen Victoria Park for a concert by Collective Soul and The Trews, another 3,000 for two shows by David Cassidy in the Avalon Ballroom and thousands more at a black-tie gala.

Some of the biggest names in the entertainment business appeared at The Avalon Ballroom in 2004. Guests this year were treated to top-notch international entertainers including Canadian headliners the Barenaked Ladies, Alanis Morissette, Michelle Wright, Jann Arden and Anne Murray. And the new casino drew added attention when it hosted Canada's Masters of Blackjack championship tournament on March 18, 2005.

The Niagara Fallsview Casino Resort

Poker Room



Not to be outdone by her new sister casino, Casino Niagara began planning its new poker room and continues to offer solid entertainment value to its patrons.



Paul Anka at the June 8th Gala Opening



Casino Niagara continues its winning ways in the charity arena as well. A \$20,000 sponsorship of the Canadian Cancer Society's annual Relay for Life led the way to breaking a record with \$160,000 raised by associates from the sister casinos.

CASINO WINDSOR

Casino Windsor has moved decisively to face head-on the challenges of increased competition from across the border. With ten years of experience to its credit and a continued commitment to excellence in gaming entertainment, Casino Windsor is looking forward to site improvements that will make this a gaming destination to rival the best casino resorts in North America.



Poker Place

Casino Windsor's customers were dealt a full house with the opening of Poker Place on February 11, 2005. With 10 poker tables featuring today's most popular games – Texas Hold'Em, Omaha and 7-Card Stud – this exciting new feature has been drawing full tables every day. Located on the second floor of the casino, Poker Place offers top-notch gaming for players at all skill levels. Poker's revived popularity as a game and spectator sport has Poker Place's 170 dealers, supervisors and pit managers on their toes. Casino Windsor's Poker Place invites customers to join in the game currently sweeping the world - with \$3 and \$6 table minimums for opening rounds. A full house, indeed.



10th Anniversary

Casino Windsor celebrated its tenth anniversary in style with ten days of spectacular entertainment, give-aways and tournaments. Since opening in 1994 to record line-ups, Ontario's first commercial casino has been the epitome of fun. The celebrations highlighted that spirit with aerial acrobats performing 60 feet above the crowds, indoor and outdoor laser light shows timed to musical spectacles and other free entertainment. Kicking off the celebrations on September 20, 2004, Windsor Mayor Eddie Francis and Casino Windsor President and CEO Kevin Laforet cut the ceremonial 20- by 40-foot cake to share with casino customers. Members of the casino's Players Prestige™ Club were eligible for daily anniversary draws featuring cash, jewelry, mega-shopping sprees and the grand-prize of a 2005 Chrysler PT Cruiser. For those who like to take a chance the old-fashioned way, there was a free Tenth Anniversary Slots Tournament with a chance to win up to \$4,600 in cash prizes. Ten Years of Fun! packed into ten days.

\$400-Million Entertainment Expansion

Casino Windsor is ready for another decade of success with the OLG's much-anticipated February 14, 2005 announcement of a \$400-million expansion of non-gaming amenities. This exciting new Vegas-style facility will rival any casino and convention centre in Ontario and will feature:

- 5,000-seat entertainment centre
- 400-room hotel tower with full amenities
- 100,000 square feet of convention space
- more restaurants and coffee shops
- 1,500 more parking spaces
- five-bay bus loading extension
- sky bridges to link the complex to the casino.

Facing competition from Detroit's four casinos and the possibility of a casino opening in Ohio, the addition of an amphitheatre that can draw large-scale events – conventions for 1,000 and regional trade shows – will keep Casino Windsor competitive. The 5,000-seat entertainment facility will allow Casino Windsor to draw the best concerts to Windsor. Now all three of Ontario's largest casinos will offer full entertainment venues allowing them to book tours and host the biggest and best names in the industry.

The expansion is not just a boon to Casino Windsor. Creating 400 new permanent jobs and 7,000 construction jobs, the added amenities will draw more visitors, with spillover benefits to the city as a whole. The opening is scheduled for 2009.

CASINO RAMA

Casino Rama is still the people's choice. Winning the *Toronto Sun's* reader's choice award for best Casino every year since it opened, Casino Rama is not just popular with its customers, but also in its



community, where outreach and volunteer activities benefit thousands. Casino Rama will continue to build on its success with new opportunities and new ventures.

Entertainment

It's been another jam-packed concert year at the Casino Rama Entertainment Centre featuring some of the biggest and brightest stars. With over 130 great events – including sold-out concerts by world-

class stars such as Dolly Parton, Don Henley, Bill Cosby, Terri Clark, Reba McEntire, Montgomery Gentry, Brad Paisley, Martina McBride, Brooks & Dunn and Vince Gill – Casino Rama is the place to be for big time entertainment, serving over 400,000 customers this year.

In Touch with the Community

As part of Casino Rama's Community Wellness Program, a Breakfast with the Funders has become an annual event. In addition to its donations to local food banks, women's shelters and friendship centres, Casino Rama hosts this special breakfast to bring other donors and community groups together each year in the hotel conference space. Representatives from over 50 local non-profit groups attended this year.

Other community programs include a Legion Brunch held each fall, when representatives from all 23 Canadian Legions in Simcoe County share a meal with members of Casino Rama's Community Wellness and Executive committees, who then present a donation cheque for the poppy fund. At this eagerly anticipated annual event veterans are encouraged to wear their service uniforms and medals. It is a simple way for Casino Rama, a proud community member, to honour veterans, not just on Remembrance Day.

CONGRATULATIONS TO...

Casino Windsor for 12 Reader Survey Awards from *Casino Player Magazine* including Best Overall Casino Resort; Best Hotel; Best Rooms;

Best Suites; Most Innovative Slot Floor and Best High-Slot Area

Casino Windsor's President and CEO Kevin Laforet, named "Gaming Professional of the Year" in the Eastern Division of the Casino Management Association

Casino Windsor's "Trade In and Trade Up" promotion, named one of the top promotions in 2004 at the Global Gaming Expo in Las Vegas
Casino Windsor Hotel for its prestigious Four Diamond Award from the Canadian/American Automobile Association for the sixth year in a row
Casino Rama, "Ontario's Favourite Casino" in the *Toronto Sun* Reader's Choice Awards – taking top honours every year since its opening
Casino Rama's promotion team on its 2004 Gaming Voice Award for Best Print Advertisement Outdoor for the SkyDome and Air Canada

Centre Duratrans

Casino Rama for its nomination in the Academy of Country Music Awards – the second ACM nomination for Casino Rama and the only Canadian Casino to be so honoured

Casino Rama for its "Greatest Impact on the Community" Business Achievement Award from Ramara Chamber of Commerce

Niagara Fallsview Casino Resort's luxury hotel for earning a prestigious H.O.T.E.L. Award from the publishers of *Facilities and Destinations* magazine for the highest levels of excellence in conference, convention and meeting space, accommodations and customer service
Niagara Fallsview Casino Resort for its five Misty Awards from Niagara Falls Tourism, recognizing its contributions to the region's tourism industry: Best Attraction and Progressive Development; Formal Fine Dining award to its signature restaurant, 17 Noir; Ron Bonaldo, Fallsview Bell Captain, in the Hospitality Recognition category; and the Niagara College Misty for assisting and promoting the advancement of students in the tourism industry

CUSTOMERS AND COMMUNITY

OLGC's six charity and aboriginal casinos generated almost \$500 million in gaming revenues this fiscal year. From this, approximately \$15 million was paid directly to the host communities of the five charity casinos and almost \$6 million to the Mississaugas of Scugog Island First Nation. Meanwhile, slot facilities at Ontario's racetracks have been a solid success – generating more than \$1.4 billion in gaming revenue for the year and creating jobs in their communities and in the horse-racing industry.

These revenues and the spin-off tourism jobs in regions where these facilities are located provide solid economic development benefits to the province.

WINNING WAYS

Shortening the time between the bells and whistles of winning the big prize and collecting the cash makes the thrill of winning complete for our customers. This year, the introduction of Automatic Jackpot Machines (AJMs) has helped OLGC achieve that goal. The machines dispense winnings with ease and dependability. The benefits are simple

but powerful. Slot attendants no longer need to make a trip to the main bank for each jackpot payout as the number of jackpots requiring processing in the cage – and manual steps involved – are greatly reduced. By the end of March 2005, AJMs had been rolled out across the province at five charity casinos and 11 slots at racetrack facilities.

The Winner's Circle Express Kiosk was also introduced this year with a pilot test at Casino Sault Ste. Marie in November 2004. With these interactive kiosks, players using their Winner's Circle cards and PIN are eligible for marketing promotions and additional instant prizes. The self-serve kiosks eliminated lineups at the customer service desk for routine promotions, allowing staff to provide more personalized service to other patrons. As a result of the pilot's success, Winner's Circle Kiosks have now been installed at all OLGC gaming facilities.

Mega Jackpots

The joy of the holiday season came early when one lucky customer became the largest jackpot winner ever at the Great Blue Heron Charity Casino – winning over \$1.4 million. The MEGA BUCKS progressive slots system links gaming sites and patrons around the province.

CHARITY CASINOS - ECONOMIC IMPACT OF OPERATIONS AS OF MARCH 31, 2005

Facility	Opening Date	Number of Employees	Annual Payroll (\$ thousands)	Revenue to Municipality* (\$ thousands)	Number of Patrons (thousands)	Number of Slots	Gaming Tables
Brantford Charity Casino	Nov 17, 1999	1,023	\$ 39,448	\$ 3,966	1,752	452	55
Casino Sault Ste. Marie	May 19, 1999	391	16,083	1,780	990	451	16
Great Blue Heron Charity Casino Slots Facility	May 3, 2000	***	***	****	1,326	452	*****
Point Edward Charity Casino	Apr 18, 2000	646	26,207	2,937	1,009	452	39
Thousand Islands Charity Casino	Jun 20, 2002	484	19,704	3,892	1,056	453	22
Thunder Bay Charity Casino	Aug 28, 2000	472	18,705	2,608	1,410	452	15
Totals		3,016	\$ 120,147	\$ 15,183	7,543	2,712	147

* 5% of revenue from slot machines at charity casinos

** Great Blue Heron patron figures are based on entire facility.

*** 307 employees of Great Blue Heron Gaming Company work in the slot facility. Estimated payroll is \$12.0 million.

**** As the host community of the slot machines at Great Blue Heron Charity Casino, the Mississaugas receive 5% of the revenue from the slot machines.

***** While Great Blue Heron Charity Casino offers table games, OLGC management and reporting is limited to the slot facility.

Note: The Great Blue Heron Charity Casino is owned by the Mississaugas of Scugog Island First Nation and is operated by Great Blue Heron Gaming Company, which is wholly owned by Casino Austria, Fantasy Gaming and Sonco Gaming. The OLGC is responsible for the management of the slot facility only. The Great Blue Heron Charity Casino is a true Aboriginal casino and a major First Nations initiative. The Mississaugas of Scugog Island First Nation Indian Band (#34) formed the Baagwating Community Association, a non-profit charitable association, to conduct and manage the table game operations. The Ontario Government receives 20% of gaming revenue and 100% of net profits from the slots facility at Great Blue Heron Charity Casino.

Poker Tournaments

Not to be outdone by their big sisters – the commercial casinos – charity casinos across Ontario are hosting poker tournaments to capitalize on poker's overwhelming popularity.

Parties and Plays

Celebrations of the old and the new marked this year at three popular slots facilities.

The Slots at Rideau Carleton Raceway and Kawartha Downs celebrated five-year anniversaries. Kawartha threw its party November 20, 2004 – to mark 4 million patrons and \$14.9 million in non-tax revenue for the community over its five-year history. Then on February 16, 2005, Rideau Carleton kicked-off a Mardi-Gras-themed party to celebrate 7.7 million patrons and \$14.4 million in non-tax gaming revenue for the City of Ottawa over the past five years.



BRANTFORD
CHARITY
CASINO



Meanwhile, "players" took on a whole new meaning for patrons and associates at Hiawatha Horse Park this March. The Carousel Playhouse – a new state-of-the-art theatre – seats more than 350 and is equipped with the latest in sound and light technology. Hiawatha Horse Park, OLGC and R&B Theatre Productions collaborated to enhance the park's appeal as an entertainment destination and the theatre opened March 1, 2005 with the 1960s rock opera SUDS.

NEW AND UPCOMING

Plans were underway this year for the March 2005 construction start for the new 35,000-square-foot slot facility at Picov Downs in Ajax – scheduled for opening in spring 2006. As Picov Downs is also building a new quarter-horse racetrack, the development is expected to be a solid entertainment draw. When operational, the slots facility will create an additional 160 full- and part-time jobs and the Town of Ajax is expected to receive revenues of between \$1.8 and \$2 million per year as its share of revenue generated at the slots facility.

SLOTS AT RACETRACKS – ECONOMIC IMPACT OF OPERATIONS AS OF MARCH 31, 2005

Facility	Opening Date	Number of Employees	Annual Payroll (\$ thousands)	Revenue to Tracks (10%) (\$ thousands)	Revenue to Horse People (10%) (\$ thousands)	Revenue to Municipality* (\$ thousands)	Number of Patrons (thousands)	Number of Slots
Clinton Raceway	Aug 24, 2000	80	\$ 3,066	\$ 1,224	\$ 1,224	\$ 612	214	100
Dresden Raceway	Apr 18, 2001	78	3,167	1,040	1,040	520	205	100
Flamboro Downs	Oct 11, 2000	352	13,839	11,939	11,939	4,530	1,654	752
Fort Erie Race Track	Sep 9, 1999	374	15,928	9,979	9,979	3,114	1,198	1,202
Georgian Downs	Nov 27, 2001	200	8,297	9,336	9,336	4,668	1,072	401
Grand River Raceway	Dec 4, 2003	153	5,610	2,971	2,971	1,485	639	200
Hanover Raceway	Feb 19, 2001	85	3,272	1,369	1,369	684	293	100
Hiawatha Horse Park	May 8, 1999	188	8,067	3,880	3,880	1,935	651	452
Kawartha Downs	Nov 22, 1999	200	8,285	6,496	6,496	3,248	976	380
Mohawk Racetrack	Aug 10, 1999	318	13,150	15,011	15,011	5,683	1,236	768
Rideau Carleton Raceway	Feb 16, 2000	349	14,530	10,680	10,680	3,289	1,485	1,250
Sudbury Downs	Nov 26, 1999	166	7,014	4,195	4,195	2,098	599	331
Western Fair Raceway	Sep 28, 1999	394	15,277	9,337	9,337	3,548	1,361	750
Windsor Raceway	Dec 16, 1998	275	12,214	7,538	7,538	2,865	985	750
Woodbine Racetrack	Mar 27, 2000	921	36,664	54,145	54,145	15,110	4,550	1,710
Woodstock Raceway	Jun 20, 2001	85	3,538	1,593	1,593	796	348	100
Totals		4,218	\$ 171,918	\$ 150,733	\$ 150,733	\$ 54,185	17,466	9,346

* 5% of revenue from slot machines up to 450 and 2% of revenue from slot machines over 450

FINANCIALS

MANAGEMENT'S RESPONSIBILITY FOR ANNUAL REPORTING

The accompanying consolidated financial statements of the Ontario Lottery and Gaming Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Where required, management has made informed judgments and estimates in accordance with Canadian generally accepted accounting principles.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit and Risk Management Committee, which is composed entirely of directors who are neither officers nor employees of the Corporation. The Audit and Risk Management Committee reviews the financial statements and recommends them to the Board for approval. This Committee meets periodically with management, internal audit and the external auditors.

To discharge its responsibility, management maintains an appropriate system of internal control to provide reasonable assurance that relevant and reliable consolidated financial statements are produced and that the Corporation's assets are properly safeguarded. The Corporation maintains a staff of internal auditors whose functions include reviewing internal controls and their application on an ongoing basis. The reports prepared by the internal auditors are reviewed by the Committee. The internal auditors have free independent access to the Committee.

Grant Thornton LLP and KPMG LLP, the independent auditors appointed by the Board of Directors upon the recommendation of the Audit and Risk Management Committee, have examined the consolidated financial statements. Their report outlines the scope of their examination and their opinion on the consolidated financial statements. The independent auditors have full and unrestricted access to the Committee.



Duncan Brown

Chief Executive Officer

May 18, 2005

E.T. Dalton, CA

Senior Vice President,

Business Optimization

May 18, 2005

AUDITORS' REPORT

To the Board of Directors of Ontario Lottery and Gaming Corporation and to the Ministry of Economic Development and Trade

We have audited the consolidated balance sheet of Ontario Lottery and Gaming Corporation as at March 31, 2005 and the consolidated statements of income, cash flows, changes in due to Province of Ontario and equity in capital assets for the year then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Toronto, Canada

May 18, 2005



Chartered Accountants

Sault Ste. Marie, Canada

May 18, 2005

CONSOLIDATED BALANCE SHEET

As at March 31, 2005 (in thousands of dollars)

	2005	2004
Assets		
Current assets		
Cash and cash equivalents (Note 2)	\$ 603,300	\$ 560,193
Accounts receivable	42,150	49,641
Due from Falls Management Company (Note 8)	3,665	4,334
Due from Government of Canada	—	1,432
Prepaid expenses and other	61,897	50,529
Current portion of loans receivable (Note 4)	8,135	10,006
	719,147	676,135
Pre-opening and deferred expenditures (Note 3)	16,834	21,218
Loans receivable (Note 4)	37,144	41,884
Capital assets (Note 5)	2,235,431	1,548,157
Assets contributed to Chippewas of Mnjikaning (Note 6)	17,221	18,303
Cash and short-term investments held for First Nations (Note 7)	116,776	88,603
	\$ 3,142,553	\$ 2,394,300
Liabilities and Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 278,593	\$ 256,323
Due to operators (Note 8)	45,624	32,298
Due to Chippewas of Mnjikaning (Note 8)	1,398	1,205
Due to Government of Canada	9,655	—
Deferred revenues	18,040	15,410
Current portion of long-term liabilities (Note 9)	168,898	33,271
	522,208	338,507
Due to First Nations (Note 7)	116,776	88,603
Long-term liabilities (Note 9)	642,462	125,871
Equity		
Due to Province of Ontario	218,203	252,827
Reserves (Note 2)	218,834	199,478
Equity in capital assets	1,424,070	1,389,014
	1,861,107	1,841,319
	\$ 3,142,553	\$ 2,394,300

Commitments (Notes 4, 8 and 10)

On behalf of the Board

Contingencies (Note 11)

See accompanying notes to consolidated financial statements.

Timothy Reid, Chair

Louis E. Panontin, Director

CONSOLIDATED STATEMENT OF INCOME

Year ended March 31, 2005 (in thousands of dollars)

	2005	2004
Revenues		
Lotteries and bingo	\$ 2,333,934	\$ 2,276,530
Commercial casinos	1,572,901	1,497,482
Charity casinos and racetrack slot operations	1,947,220	1,956,058
	5,854,055	5,730,070
Operating expenses		
Lotteries and bingo	1,652,525	1,630,341
Commercial casinos	1,446,188	1,252,213
Charity casinos and racetrack slot operations	1,028,740	1,020,474
	4,127,453	3,903,028
Income before the undernoted	1,726,602	1,827,042
Interest and other income	25,214	25,778
Interest on long-term debt	(31,472)	(11,577)
Foreign exchange gain	19,623	16,409
Net income	\$ 1,739,967	\$ 1,857,652

Segmented information (Note 12)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31, 2005 (in thousands of dollars)

	2005	2004
Cash derived from (applied to):		
Operations		
Net income	\$ 1,739,967	\$ 1,857,652
Amortization of capital assets	203,455	148,274
Amortization of non-capital assets	16,339	13,934
Loss on disposal of capital assets	148	1,128
Change in non-cash operating working capital:		
Accounts receivable	7,491	(2,810)
Due from Government of Canada	1,432	(264)
Prepaid expenses and other	(11,368)	2,529
Accounts payable and accrued liabilities	22,270	(7,816)
Due to operators	13,326	(5,728)
Due to Chippewas of Mnjikaning	193	(3,679)
Due to Government of Canada	9,655	-
Deferred revenues	2,630	830
	2,005,538	2,004,050
Financing		
Increase in long-term liabilities	794,000	7,757
Repayments of long-term liabilities	(141,781)	(23,377)
	652,219	(15,620)
Investing		
Due from Falls Management Company	669	(4,334)
Pre-opening and deferred expenditures	(10,873)	(5,695)
Issuance of loans receivable	(3,088)	(30,513)
Repayment of loans receivable	9,699	8,896
Capital expenditures	(894,035)	(265,153)
Proceeds on disposal of capital assets	3,158	1,822
Assets contributed to Chippewas of Mnjikaning	-	(69)
	(894,470)	(295,046)
Other		
Payments to Province of Ontario	(1,628,746)	(1,553,486)
Distributions to First Nations	(101,089)	(71,820)
Increase in due to First Nations	9,655	(6,900)
	(1,720,180)	(1,632,206)
Increase in cash and cash equivalents	43,107	61,178
Cash and cash equivalents, beginning of year	560,193	499,015
Cash and cash equivalents, end of year	\$ 603,300	\$ 560,193
Supplemental disclosure of cash flow information:		
Cash interest received	\$ 10,142	\$ 10,780
Cash paid for interest	33,648	10,344

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN DUE TO PROVINCE OF ONTARIO

Year ended March 31, 2005 (in thousands of dollars)

	2005	2004
Net income	\$ 1,739,967	\$ 1,857,652
Add (deduct)		
Capital expenditures, net	(890,730)	(262,202)
Amortization of capital assets	203,455	148,274
Repayments of long-term liabilities	(141,781)	(23,377)
Increase in long-term liabilities	794,000	7,757
Distributions to First Nations	(91,434)	(78,720)
Transfers to reserves, net		
Capital renewals	(8,388)	(22,719)
Operating	(8,419)	(4,530)
Severance	(2,548)	(2,608)
	<u>(145,845)</u>	<u>(238,125)</u>
Current year amount due	1,594,122	1,619,527
Payments to Province of Ontario	(1,628,746)	(1,553,486)
Amount due less payments	(34,624)	66,041
Due to Province of Ontario, beginning of year	252,827	186,786
Due to Province of Ontario, end of year	\$ 218,203	\$ 252,827

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF EQUITY IN CAPITAL ASSETS

Year ended March 31, 2005 (in thousands of dollars)

	2005	2004
Balance, beginning of year	\$ 1,389,014	\$ 1,259,466
Capital expenditures, net	890,730	262,202
Amortization of capital assets	(203,455)	(148,274)
Repayments of long-term liabilities	141,781	23,377
Increase in long-term liabilities	(794,000)	(7,757)
Balance, end of year	\$ 1,424,070	\$ 1,389,014

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2005 (tabular amounts in thousands of dollars)

The Ontario Lottery and Gaming Corporation (the Corporation) was established without share capital on April 1, 2000 pursuant to the *Ontario Lottery and Gaming Corporation Act*, 1999. The Corporation is a Crown agency of the Ontario government and is responsible for conducting and managing lottery games, five charity casinos and the Great Blue Heron Charity Casino Slot Machine Facility, sixteen slot operations at racetracks and four commercial casinos in the Province of Ontario.

The Corporation has entered into operating agreements with Windsor Casino Limited, CHC Casinos Canada Limited, Falls Management Company and Great Blue Heron Gaming Company for the operation of Casino Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort and the Great Blue Heron Charity Casino Slot Machine Facility, respectively.

Casino Rama is located on reserve lands of the Chippewas of Mnjikaning First Nation. Under the terms of the Casino Rama Revenue Agreement dated June 9, 2000, Ontario First Nations are entitled to the ongoing net revenues, as defined, of Casino Rama. Upon the ultimate dissolution and wind up of the operation, Ontario First Nations are entitled to the net proceeds from the disposition of the moveable assets, as defined, as well as any remaining undistributed earnings. In addition, under the terms of a 25-year lease (expiring in March 2021) between the Corporation and Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, upon the dissolution and wind up of the casino operation the Corporation is required to surrender to the lessor, Casino Rama Inc., the lands and all improvements, except for the proceeds arising from the disposition of furniture, fixtures and casino gaming assets, which the Ontario First Nations are entitled to. These proceeds will be paid out to the Ontario First Nations in accordance with the Casino Rama Revenue Agreement.

The assets, liabilities and operations of the Great Blue Heron Charity Casino Slot Machine Facility are included in these financial statements. The operating results are included with the results of the charity casinos and racetrack slot operations. These financial statements do not include other operations carried out at the Great Blue Heron Charity Casino.

1. SIGNIFICANT ACCOUNTING POLICIES

b) Revenue recognition

a) Basis of consolidation

The consolidated financial statements include the accounts of the Corporation and its 100 per cent owned subsidiaries, Ontario Gaming Assets Corporation and OLC Services Limited. These subsidiaries were established to purchase capital assets, which are leased to the parent corporation at cost.

In addition, the consolidated financial statements combine the financial position and results of operations of the commercial casinos at Casino Windsor, Casino Rama, Casino Niagara and Niagara Fallsview Casino Resort (Fallsview), and of the Great Blue Heron Charity Casino Slot Machine Facility.

Revenue from lottery games, for which results are determined based on a draw, is recognized when the draw takes place. Revenue for future draws is deferred and recognized when the draw takes place. Revenue from instant games is recognized when the ticket is activated for play by the retailer. Revenue from sports wagering games and bingo gaming is recognized when the ticket is sold to the consumer. Tickets issued as a result of the redemption of free ticket prizes are not recorded as revenue.

Gaming revenue from slot and table game operations represents the net win from gaming activities, which is the difference between amounts earned through gaming wagers less the payouts from those wagers.

Non-gaming revenue includes revenue from hotel, food and beverage, entertainment centre and other services and is recognized at the time the services are rendered to patrons. This also includes the retail value of accommodations, food and beverage and other services provided to patrons on a complimentary basis.

c) Promotional allowances

Promotional allowances include the retail value of accommodation, food and beverage and other goods and services provided on a complimentary basis to patrons. The player clubs at the casinos and slot facilities allow patrons to earn points based on the volume of play. These points are accrued as a liability based on estimated redemption and are redeemable for complimentary goods and services and/or cash rebates. Promotional allowances include the value of the points as they are earned.

Promotional allowances also include the retail value of coupons (hotel, food and beverage and other goods and services) and other incentives provided to the patrons when these coupons are redeemed. The retail value of these coupons is included in revenue.

The estimated costs of providing these promotional allowances have been included as expenses in the Consolidated Statement of Income.

d) Cash and cash equivalents

Cash equivalents are defined as liquid investments that have a term to maturity at the time of purchase of less than 90 days.

e) Pre-opening and deferred expenditures

Certain expenditures, consisting of compensation, consulting and other costs incurred in connection with the development and opening of gaming sites are deferred and amortized over three years, commencing with site opening.

Expenditures, consisting of compensation, consulting and other costs incurred with the development of a management information system are deferred and amortized over a period not exceeding five years. Other deferred expenditures, incurred as a result of the funding of the construction of facilities for the Chippewas of Mnjikaning, are amortized over the term of the related debt.

f) Capital assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	10 to 50 years
Furniture and fixtures	2 to 10 years
Leasehold improvements	4 to 14 years
Lottery gaming assets	3 to 7 years
Casino and racetrack slot operations gaming assets	2 to 10 years

Capital assets are amortized when brought into operations.

Construction in progress and assets not in use are stated at cost. Costs will be amortized commencing upon completion of the related project. Interest on debt used to finance major additions to capital assets is capitalized during the construction phase. The interest cost is determined using the interest rate on incremental debt incurred by the Corporation to finance these capital assets. Interest capitalized is amortized over the same period as the related asset.

g) Impairment of long-lived assets

Long-lived assets, including pre-opening and deferred expenditures, assets contributed to Chippewas of Mnjikaning and capital assets, subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset, including cash flows that accrue to the Province of Ontario. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer amortized. The asset and liabilities of a disposed group classified as held for sale would be

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (*tabular amounts in thousands of dollars*)

presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

At March 31, 2005 and March 31, 2004, no impairments in the carrying value of these assets existed.

b) Asset retirement obligations

The Corporation records the fair value of an asset retirement obligation as a liability in the year in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Corporation also records a corresponding asset that is amortized over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

As at March 31, 2005, the Corporation has asset retirement obligations with respect to certain facilities, however the fair value of these amounts cannot be determined at this time due to insufficient information being available regarding the settlement dates for these obligations. As such, no amounts have been recorded in these consolidated financial statements.

i) Assets contributed to Chippewas of Mnjikaning

Assets contributed to Chippewas of Mnjikaning, consisting primarily of funding for the construction of a community centre, senior centre and certain infrastructure facilities, are amortized over the term of the Casino Rama ground lease.

j) Foreign currency translation

Monetary assets and liabilities are translated into Canadian dollars at the year-end exchange rates. Consolidated Statement of Income items are translated at the rate of exchange in effect at the transaction date. Translation gains and losses are included in the Consolidated Statement of Income in the period in which they arise.

k) Derivative financial instruments

Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, is party to certain derivative financial instruments, principally interest rate swap contracts, used to manage its exposure to interest rate fluctuations on the non-revolving term loan (Note 9). Casino Rama Inc. does not enter into financial instruments for trading or speculative purposes. The policy adopted is to formally designate each derivative financial instrument as a hedge of a specifically identified debt instrument. The derivative financial instruments are effective as hedges, both at inception and over the term of the instrument; as the term to maturity, the (notional) principal amount and the interest rate basis in the instruments all match the terms of the portion of the debt instrument being hedged.

These instruments are not recognized in the financial statements of the Corporation on inception. Payments and receipts under the interest rate swap contracts are recognized as adjustments to interest expense. In the event of early extinguishment of the debt obligation, any realized or unrealized gain or loss from the swap would be recognized in the Consolidated Statement of Income at the time of extinguishment.

The fair value of the interest rate swap contracts was calculated based on market conditions at year-end, supplemented with a quote from a financial institution. The fair value represents the amount that would be paid to terminate or replace the contracts. There are no present plans to terminate or replace significant portions of the contracts.

l) Concentration of credit risk

The Corporation has financial instruments that potentially expose it to a concentration of credit risk. The instruments consist of cash equivalents, accounts receivable and loans receivable. Cash equivalents consist of deposits with major commercial banks. Accounts receivable include credit provided to retailers of lottery products and patrons of commercial casinos. Loans receivable consist of loans to racetrack operators and municipalities. The Corporation performs ongoing credit evaluations of retailers, patrons, racetrack operators and municipalities and maintains reserves for potential credit losses.

m) Financial instruments

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, due from Falls Management Company, due from/to Government of Canada, loans receivable, cash and short-term investments held for First Nations, accounts payable and accrued liabilities, due to operators, due to Chippewas of Mnjikaning, due to First Nations and long-term liabilities. The fair value of these financial instruments, excluding loans receivable and long-term liabilities, approximates carrying amounts due to the short maturities of these instruments. The fair value of loans receivable approximates carrying value prior to consideration of the allowance for loan losses and is estimated by discounting the future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and similar remaining maturities. The fair value of the long-term liabilities approximates carrying value and is calculated by discounting future cash flows using rates currently available for similar terms and maturities.

n) Guarantees

The Corporation has adopted the disclosure provisions related to the Canadian Institute of Chartered Accountants' Accounting Guideline No. 14 "Disclosure of Guarantees." There are no guarantees that require disclosure in the financial statements.

o) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant estimates are used in determining, but are not limited to, the valuation of markers receivable, inventory valuation, valuation of loans receivable, the useful lives of all depreciable assets, the recoverability of capital assets, unclaimed prize liability, the players club point provision and the outstanding chip and token liability. Actual results could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the below-noted amounts, which are held in separate accounts.

	2005	2004
Reserves		
Capital renewals	\$ 117,792	\$ 109,404
Operating	74,109	65,689
Severance	26,933	24,385
	218,834	199,478
Prize funds on deposit	29,685	34,675
Term loan proceeds	24,352	1,660
	\$ 272,871	\$ 235,813

The Corporation has established cash reserves at the commercial casinos in accordance with their respective operating agreements for the following purposes:

- i) capital renewals reserves for capital asset additions other than normal repairs or major renovations
- ii) operating reserves to satisfy specified obligations in the event that revenue will be insufficient to meet such obligations and
- iii) severance reserve to satisfy certain obligations of the Corporation arising from termination or layoff of employees of an operator in connection with the termination of an operator.

Prize funds on deposit are funds set aside representing the estimate of gross prizes outstanding less an estimate for prizes not expected to be claimed by players.

Term loan proceeds represent restricted cash that was to be used for construction purposes at Niagara Fallsview Casino Resort and Casino Rama.

Cash and cash equivalents include bank term deposits amounting to \$69,876,000 (2004 – \$72,800,000) at an interest rate of 2.35 to 2.45 per cent (2004 – 2.1 to 2.15 per cent).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (*tabular amounts in thousands of dollars*)

3. PRE-OPENING AND DEFERRED EXPENDITURES

	Cost	Accumulated Amortization	2005 Net Book Value	2004 Net Book Value
Pre-opening expenditures				
Commercial casinos	\$ 18,143	\$ 10,372	\$ 7,771	\$ 4,581
Charity casinos and racetrack slot operations	22,236	19,475	2,761	5,186
	40,379	29,847	10,532	9,767
Deferred expenditures	25,691	19,389	6,302	11,451
	\$ 66,070	\$ 49,236	\$ 16,834	\$ 21,218

4. LOANS RECEIVABLE

The Corporation has loaned and is committed to loan funds to certain racetrack operators for the purposes of renovating or constructing buildings to accommodate the Corporation's slot machine facilities. Security is provided by mortgages and general security agreements covering the racetrack operators' assets. The loans bear interest based on the bank's prime rate and are repayable over periods ranging from one to ten years. The amounts will be repaid under an agreed upon formula by withholding from commissions that would otherwise be

payable to the racetrack operators. The Corporation has also advanced funds to certain municipalities for purposes of infrastructure improvements. The amounts will be recovered from the municipal commissions otherwise payable.

The Corporation's maximum remaining commitment as at March 31, 2005 is \$10,400,000 to one racetrack operator and \$4,300,000 to two municipalities.

5. CAPITAL ASSETS

	Cost	Accumulated Amortization	2005 Net Book Value	2004 Net Book Value
Land	\$ 133,752	\$ —	\$ 133,752	\$ 133,161
Buildings	1,378,916	95,066	1,283,850	571,966
Furniture and fixtures	536,401	325,643	210,758	164,866
Leasehold improvements	535,544	222,514	313,030	329,376
Lottery gaming assets	161,868	63,278	98,590	88,939
Casino and racetrack slot operation gaming assets	479,120	285,962	193,158	176,733
Construction in progress and assets not in use	2,293	—	2,293	83,116
	\$ 3,227,894	\$ 992,463	\$ 2,235,431	\$ 1,548,157

During the year the Corporation capitalized interest amounting to \$2,337,138 (2004 – \$9,496,631).

6. ASSETS CONTRIBUTED TO CHIPPEWAS OF MNJIKANING

	Cost	Accumulated Amortization	2005 Net Book Value	2004 Net Book Value
Assets contributed to Chippewas of Mnjikaning	\$ 32,337	\$ 15,116	\$ 17,221	\$ 18,303

7. CASH AND SHORT-TERM INVESTMENTS HELD FOR FIRST NATIONS

	2005	2004
Segregated bank account, beginning of year	\$ 73,518	\$ 46,753
Distributions to the segregated bank account during the year	35,238	25,087
Interest earned during the year	2,065	1,678
Segregated bank account, end of year	110,821	73,518
Current distribution due to First Nations	5,955	15,085
	\$ 116,776	\$ 88,603

On June 9, 2000, the Corporation, the First Nations of Ontario and the Province of Ontario entered into a revenue agreement that entitles the Ontario First Nations to the net revenues, as defined, from the operation of Casino Rama. Under the agreement, the Corporation is required to distribute the net revenues from the operation on a monthly basis.

The Casino Rama Revenue Agreement requires that, commencing July 31, 2001, the Corporation retain 35 per cent of the net distributions from Casino Rama in a segregated bank account if the Corporation has not received a joint direction from the Chiefs of Ontario and the Chippewas of Mnjikaning with respect to a new revenue distribution formula. As at March 31, 2005, the Corporation has not received this direction and accordingly has retained 35 per cent of the net distributions in a segregated interest-bearing bank account. This matter is currently the subject of an action brought by the Chippewas of Mnjikaning against the Province of Ontario and the Corporation and until the matter is decided by the Courts or, alternatively, the Chippewas of Mnjikaning and the Chiefs of Ontario reach agreement on a new revenue distribution formula, the Corporation is required to retain these funds.

The payment related to the monthly distribution of the net revenue for March 2005 is included above as Distribution due to First Nations.

8. RELATED PARTY TRANSACTIONS

- a) Under the terms of the development and operating agreements for each of the commercial casinos and the Great Blue Heron Charity Casino Slot Machine Facility each operator is entitled to receive an operator's fee calculated as a percentage of gross revenues and as a percentage of net operating margin, both as defined in each of the related development and operating agreements.
- b) Under the terms of the development and operating agreement for Casino Rama, the Chippewas of Mnjikaning receive an annual fee of \$4,500,000, adjusted for inflation, relating to provision of ongoing operating services. During the year, \$5,269,000 (2004 – \$5,170,000) was expensed. Other Chippewas of Mnjikaning charges amounting to \$6,506,000 (2004 – \$5,954,000) were also incurred during the year in connection with snow removal, water, sewer and emergency services. In addition, under the terms of a ten-year lease expiring July 2006, for the rental of office space, \$530,000 (2004 – \$626,000) was expensed to a company related to the Chippewas of Mnjikaning. Also, under the terms of an eight-year lease ending July 2011, an annual rental of \$313,000, adjusted for inflation, for warehouse space is paid to a company related to the Chippewas of Mnjikaning. During the year, \$320,000 was expensed (2004 – \$268,000).

On April 30, 2002, an agreement was signed with the Chippewas of Mnjikaning, whereby the Corporation will reimburse the Chippewas of Mnjikaning 75 per cent of the annual operating budget of the fire department, in exchange for fire protection services to the casino complex. This amount is included in other Chippewas of Mnjikaning charges above and is defined in the agreement for the period of April 1, 2000 to July 31, 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (*tabular amounts in thousands of dollars*)

- The lands used for the Casino Rama complex are leased by Casino Rama Inc. from Her Majesty the Queen in the Right of Canada under a 25-year lease, which expires in March 2021. Annual rent payable under this lease is \$3,500,000, adjusted for inflation, and is paid out of the gross revenues of the Casino Rama complex to the Chippewas of Mnjikaning in accordance with instructions from Indian and Northern Affairs Canada as representative for Her Majesty the Queen. During the year, \$4,109,000 (2004 – \$4,081,000) was expensed. Under the terms of an expansion agreement, additional annual rent of \$1,700,000, adjusted annually for inflation, is payable and during the year \$1,845,000 (2004 – \$1,836,000) was expensed.
- c) Under the terms of the development and operating agreement, the Mississaugas of Scugog Island First Nation receive an amount equal to five per cent of the gross revenue of the Great Blue Heron Charity Casino Slot Machine Facility in consideration for provision of the lands used for the Slot Machine Facility. During the year, \$5,835,000 (2004 – \$5,173,000) was paid to the Mississaugas of Scugog Island First Nation.
- d) Falls Management Company (FMC) is the developer of the Niagara Fallsview Casino Resort (Fallsview). As at March 31, 2005, certain costs relating to the development of Fallsview were incurred by Casino Niagara. These costs were billed to FMC and are reflected on the financial statements as Due from Falls Management Company. During the year payments were made to FMC in the amount of \$25,076,000 (2004 – \$7,655,000) for development fees relating to the construction of Fallsview.

9. LONG-TERM LIABILITIES

	2005	2004
Casino Rama non-revolving term loan	\$ 125,870	\$ 144,527
Niagara Fallsview Casino Resort loan	685,490	–
Niagara Fallsview construction development liability	–	14,615
	811,360	159,142
Less current portion	168,898	33,271
	\$ 642,462	\$ 125,871

a) *Casino Rama*

In June 2000, the Corporation entered into an agreement relating to the expansion and renovation of Casino Rama. Under the terms of the agreement, the Chippewas of Mnjikaning were responsible for the development, construction and financing of the expansion project at Casino Rama. In addition, Casino Rama Inc., a wholly owned subsidiary of the Chippewas of Mnjikaning, entered into a lending agreement that provides for a \$186,560,000 non-revolving term credit facility for the project. The development and operating agreement for Casino Rama requires, among other things, that principal and interest payments be made from the gross revenues of Casino Rama in nineteen quarterly principal installments, beginning June 28, 2002, of \$4,664,000 and a final installment of \$97,644,000.

The credit facility bears interest at rates ranging between bank prime and bank prime plus 1.5 per cent dependent on conditions outlined in the credit facility agreement. Bank prime at March 31, 2005 is 4.25 per cent (2004 – 4 per cent). Interest paid during the year amounted to \$8,854,000 (2004 – \$10,324,000). An interest rate swap contract, which matures on June 30, 2007, was entered into on July 6, 2000, with an original notional principal of \$125,100,000. The balance under the contract at March 31, 2005, amounted to \$88,887,000 (2004 – \$102,055,000). The contract results in a fixed rate of 6.68 per cent on the outstanding notional amount. The interest rate risk exposure is limited to the net differential between the variable borrowing rate and the fixed rate under the swap contract, which is approximately four per cent at March 31, 2005. The net interest rate receivable or payable under the contract is settled quarterly with the counter party, which is a Canadian chartered bank. The fair value of the interest rate swap contract, which represents the amount that would be paid to terminate or replace the contract as at March 31, 2005, is \$5,386,000 (2004 – \$9,780,000). Fair value estimates of the interest rate swap contract are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The funds advanced under the credit facility have been secured by certain Casino Rama assets.

In June 2004, the Corporation entered into a loan agreement with the Ontario Financing Authority (Province of Ontario) for the purchase of the Niagara Fallsview Casino Resort from Falls Management Corporation. The initial loan balance of \$794,000,000 plus interest, is repayable over five years. The loan bears interest at a rate of 4.4 per cent per annum and is unsecured.

The Corporation purchased Fallsview from Falls Management Company (FMC), the developer, in June 2004, and FMC was paid \$769,745,000. This new facility opened to the public on June 10, 2004.

The principal loan repayments expected to be made over the next five years are approximately:

2006	\$ 168,898
2007	263,952
2008	163,764
2009	170,867
2010	43,879

10. COMMITMENTS

a) Obligations under operating leases

The Corporation has entered into several leases for property and equipment. The future minimum lease payments are approximately:

2006	\$ 16,942
2007	13,649
2008	10,328
2009	9,777
2010	9,136
	59,832
Thereafter	22,423
	\$ 82,255

b) Suppliers

The Corporation has computer hardware and maintenance agreements with future payments of approximately:

2006	\$ 5,950
2007	5,385
2008	4,311
2009	47
	\$ 15,693

c) Casino Windsor

In connection with Casino Windsor, in Windsor, Ontario, and under the terms of an agreement, the Corporation agreed to provide the City of Windsor with a fixed return over 20 years with payments commencing May 1, 1998 in the amount of \$2,600,000 per annum for the first 10 years and \$3,000,000 per annum for the last 10 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (*tabular amounts in thousands of dollars*)

d) Niagara Fallsview Casino Resort

In connection with properties in Niagara Falls, Ontario, and under the terms of an agreement, the Corporation agreed to provide the Corporation of the City of Niagara Falls (the City) with payments commencing December 7, 2000 in the amount of \$2,600,000 per annum for the first 10 years, \$3,000,000 per annum for the next 10 years and then \$3,000,000 per annum, adjusted for Consumer Price Index, as defined in the agreement, thereafter. In addition, the Corporation is obligated to reimburse the City for the Corporation's share of certain infrastructure costs amounting to \$3,770,000.

11. CONTINGENCIES

a) In November 2003, the Ontario First Nations Limited Partnership (the Plaintiff) delivered a statement of claim against the Corporation, Her Majesty the Queen in Right of Ontario and the Chippewas of Mnjikaning First Nation, as defendant parties. The statement of claim alleges that the Province of Ontario wrongfully withheld 20 per cent of the gross revenues from Casino Rama operations. The Plaintiff claims damages in an amount equivalent to 20 percent of the gross revenues of Casino Rama from the time that it opened for operations to the date of judgment plus damages in the amount of \$300,000,000. The outcome is undeterminable at this time and no amounts have been accrued in these financial statements.

b) In November 2003, the Chippewas of Mnjikaning First Nation (the Plaintiff) delivered a notice of claim against the Corporation, her Majesty the Queen in Right of Ontario and CHC Casinos Canada Limited, as defendant parties. The Plaintiff alleges to be the legal and beneficial owner of all capital assets purchased for use in the development and operation of Casino Rama and requires all amounts of retail sales tax that have been paid or accrued in respect of purchases of capital assets be reimbursed. The Plaintiff claims damages in the amount of \$21,000,000 against the defendant parties, excluding CHC Casinos Canada Limited, and claims that title to all capital assets purchased for use in the development and operation of Casino Rama be transferred to the Plaintiff. The outcome is undeterminable at this time and no amounts have been accrued in these financial statements.

c) The Corporation is, from time to time, involved in various legal proceedings of a character normally incidental to its business. The Corporation believes that the outcome of these outstanding claims will not have a material impact on these financial statements. Estimates, where appropriate, have been included in these financial statements, however additional settlements, if any, concerning these contingencies will be accounted for as a charge to the Consolidated Statement of Income in the period in which the settlement occurs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (*tabular amounts in thousands of dollars*)

12. SEGMENTED INFORMATION

2005	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
Revenues				
Lotteries & bingo	\$ 2,333,934	\$ —	\$ —	\$ 2,333,934
Slots	—	1,176,316	1,927,407	3,103,723
Tables	—	423,837	62,914	486,751
Non-gaming	—	215,625	33,267	248,892
	2,333,934	1,815,778	2,023,588	6,173,300
Less promotional allowances	—	242,877	76,368	319,245
	2,333,934	1,572,901	1,947,220	5,854,055
Operating expenses				
Non-gaming	—	197,303	33,710	231,013
Gaming and lottery operations	96,031	331,148	268,878	696,057
Lottery prizes	1,225,196	—	—	1,225,196
Commissions	164,219	—	376,669	540,888
Marketing and promotion	49,257	123,999	70,811	244,067
Operators' fees (Note 8a)	—	76,678	6,847	83,525
Amortization	23,705	116,634	79,455	219,794
General and administration	36,570	101,372	72,319	210,261
Facilities	—	136,983	60,424	197,407
Win contribution (Note 14)	—	319,958	23,281	343,239
Payments to Government of Canada (Note 15)	57,547	42,113	36,346	136,006
	1,652,525	1,446,188	1,028,740	4,127,453
Income before the undernoted	681,409	126,713	918,480	1,726,602
Interest and other income	3,989	13,059	8,166	25,214
Interest on long-term debt	—	(31,472)	—	(31,472)
Foreign exchange gain (loss)	(3)	15,411	4,215	19,623
	3,986	(3,002)	12,381	13,365
Net income	\$ 685,395	\$ 123,711	\$ 930,861	\$ 1,739,967

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (*tabular amounts in thousands of dollars*)

2004

	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
Revenues				
Lotteries & bingo	\$ 2,276,530	\$ —	\$ —	\$ 2,276,530
Slots	—	1,125,333	1,942,085	3,067,418
Tables	—	408,162	59,210	467,372
Non-gaming	—	172,358	29,617	201,975
	2,276,530	1,705,853	2,030,912	6,013,295
Less promotional allowances	—	208,371	74,854	283,225
	2,276,530	1,497,482	1,956,058	5,730,070
Operating expenses				
Non-gaming	—	152,528	29,988	182,516
Gaming and lottery operations	100,641	306,373	259,873	666,887
Lottery prizes	1,220,881	—	—	1,220,881
Commissions	161,474	—	383,079	544,553
Marketing and promotion	43,248	125,048	79,519	247,815
Operators' fees (Note 8a)	—	61,466	6,063	67,529
Amortization	12,109	71,106	78,993	162,208
General and administration	34,808	85,937	66,224	186,969
Facilities	—	110,616	55,529	166,145
Win contribution (Note 14)	—	306,638	20,648	327,286
Payments to Government of Canada (Note 15)	57,180	32,501	40,558	130,239
	1,630,341	1,252,213	1,020,474	3,903,028
Income before the undernoted	646,189	245,269	935,584	1,827,042
Interest and other income	3,822	13,865	8,091	25,778
Interest on long-term debt	—	(11,577)	—	(11,577)
Foreign exchange gain	9	13,890	2,510	16,409
	3,831	16,178	10,601	30,610
Net income	\$ 650,020	\$ 261,447	\$ 946,185	\$ 1,857,652

13. POST EMPLOYMENT PLANS

The Corporation provides pension benefits for all its permanent employees and to non-permanent employees who elect to participate through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employee's Union Pension Fund (OPSEU Pension Fund), which are multi-employer defined benefit pension plans established by the Province of Ontario. The cost of post-employment benefits is included as part of the pension contributions made by the Corporation to the PSPF and OPSEU Pension Fund and accordingly the Corporation has no additional liability for these future costs. The Corporation's contribution during the year was \$16,529,000 (2004 – \$15,298,000).

The operators of the commercial casinos have created defined contribution pension plans for their employees. The pension expense for the year amounted to \$18,934,000 (2004 – \$15,306,000).

14. WIN CONTRIBUTION

The Corporation remits a contribution to the Province of Ontario equal to 20 per cent of gaming revenue from commercial casinos and the Great Blue Heron Charity Casino Slot Machine Facility.

15. PAYMENTS TO GOVERNMENT OF CANADA

The Corporation made the following payments to the Government of Canada:

	2005	2004
Payments on behalf		
of the Province of Ontario	\$ 23,717	\$ 23,212
Goods and Services Tax	112,289	107,027
	\$ 136,006	\$ 130,239

a) *Payments on behalf of the Province of Ontario*

The provincial lottery corporations make payments to the Government of Canada under an agreement dated August 1979 between the provincial governments and the Government of Canada. The agreement stipulates that the Government of Canada will not participate in the sale of lottery tickets.

b) *Goods and Services Tax*

As a prescribed Goods and Services Tax (GST) Registrant, the Corporation makes GST remittances to the Federal Government pursuant to the Games of Chance (GST/HST) Regulations of the *Excise Tax Act*. The Corporation's net tax for a reporting period is calculated using net tax attributable to both gaming and non-gaming activities. The net tax attributable to gaming activities results in a 14 per cent tax burden on most taxable gaming expenditures incurred by the Corporation. The net tax attributable to non-gaming activities is calculated similar to any other GST registrant in Canada.

16. COMPARATIVE AMOUNTS

Certain prior year amounts have been reclassified to conform with current year financial statement presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERALL CORPORATE PERFORMANCE

The Corporation ended the year with consolidated gross revenues in excess of \$6 billion. Total net income was \$1.7 billion – \$118 million or six per cent less than the prior year due principally to the new Niagara Fallsview Casino Resort, which opened to the public June 10, 2004, not achieving anticipated revenue levels. The increased restrictions at the border and the strength of our Canadian dollar, relative to US currency, continued to affect our border sites.

REVENUES – FISCAL 2005 VERSUS FISCAL 2004

The Corporation completed the fiscal year ended March 31, 2005 with net revenues, after promotional allowances, of \$5.9 billion. An increase of \$124 million from the prior year, in large part due to the increased revenues at the commercial casinos combined with increased lottery revenues. Revenues are reported net of players club expense (a loyalty program whereby patrons earn points based on volume of play) and promotional allowances, which include the retail value of accommodation, food and beverage services and other complimentary services provided to patrons.

Fiscal 2004-2005 Revenue Distribution



Lotteries

Lotteries continue to be a significant revenue-generator, with fiscal 2005 revenues at \$2.3 billion – \$57 million or three per cent ahead of the prior year. Lottery revenue is reported before deduction for prizes. The growth in revenue is largely attributable to an enhanced LOTTO 6/49 game which was launched May 30, 2004. Enhancements to the game and a new \$2 price point contributed to the revenue increase.

On the other hand, cancellation of the professional hockey season reduced sports lottery revenues by approximately \$100 million, with a corresponding impact of about \$30 million on net profits. This effect was mitigated somewhat by the introduction of new PRO*PICKS playing options including POOLS and PROPS and the introduction of other sports including golf and car racing. In addition, LOTTO SUPER 7 trailed the prior year by approximately \$120 million as a result of lower jackpots combined with the impact of the launch of the enhanced LOTTO 6/49 game. There were four jackpots \$30 million and above in fiscal 2004 compared to only one in fiscal 2005.

Commercial Casinos

At commercial casinos the downward revenue trend of the previous two years has been halted – with total commercial casinos revenues of \$1.6 billion, up \$75 million from the prior year. The opening of the Niagara Fallsview Casino Resort (Fallsview) and a strong performance at Casino Rama contributed to the revenue improvement. Casino Niagara and Fallsview achieved combined net revenues of \$634 million, as a result of the opening of Fallsview. However, this was \$295 million lower than budgeted. Casino Windsor revenues were almost \$100 million lower than last year, primarily due to a 43-day labour strike at this facility early in the fiscal year. Casino Windsor and other border facilities continue to be negatively affected by border restrictions and the strong Canadian dollar. During this fiscal year, the US dollar depreciated, in Canadian dollar terms, from \$1.3113 at March 31, 2004 to \$1.2096 at March 31, 2005. All three border facilities have a large US patron base. Casino Rama performed well, with net revenues \$39 million ahead of fiscal 2004, in part due to their trip-generation programs. The additional marketing of non-gaming amenities – the new hotel and entertainment centre – has made Casino Rama a full destination gaming facility.

Charity Casinos & Racetrack Slots Operations

The charity casinos and racetracks slot operations, including the slot operations at the Great Blue Heron Charity Casino, finished the year with revenues of \$1.9 billion, \$9 million lower than the prior year. Revenue shortfalls for this business segment were a result of the implementation of no-smoking bylaws at a number of sites and

competition from casinos located in New York State and from Niagara Fallsview Casino Resort. A full year of operation at Grand River Raceway mitigated the overall impact of these challenges by contributing revenues of \$22 million. Windsor Racetrack slot operations also drew increased patronage and revenues during the Casino Windsor strike period.

PROJECTIONS AND PLANS

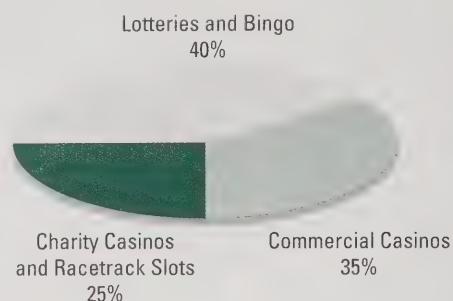
Revenues are expected to be negatively affected during fiscal 2006 as no-smoking bylaws are implemented at other gaming sites and a province-wide smoking ban is planned for May 2006. Additional competition for border locations will also continue to challenge our market share. The Corporation however, is preparing – looking at alternative ways to increase revenues in a responsible manner and cost containment efforts. The most significant re-development initiative – a \$400-million Casino Windsor development project – was announced February 14, 2005. The project entails an expansion of non-gaming amenities, including the addition of a 5,000-seat theatre, 100,000 square feet of convention space, a 400-room hotel tower and expanded food and beverage operations. It is to be completed and ready for operation in fiscal 2009. The initiative will allow Casino Windsor to position itself competitively in the Detroit-Windsor market, helping to improve its market share.

By this fiscal year end, several initiatives were already in the works for the coming year. The Corporation will execute repositioning strategies for the Niagara properties and has commenced several pilot programs at Casino Niagara, intended to improve revenues and profitability. Construction will also commence on the slots facility at Picov Raceway – the second last facility planned under the racetrack slot program. Older slot machines will be replaced with state-of-the-art equipment, and machines will be added at some existing slot operations and charity casinos – with additional revenues and profits expected.

The Corporation also established a dedicated team of senior managers led by a Senior Vice President with a two-year mandate to review the Corporation's structure and processes from a business optimization perspective. The team will examine existing business practices and structures, identify opportunities for improved efficiency, effectiveness and long-term sustainability.

EXPENSES – FISCAL 2005 VERSUS FISCAL 2004

Fiscal 2004-2005 Expense Distribution



Non-gaming

Non-gaming expenses include the costs of promotional allowances and services such as food, bar, hotel, entertainment centre, coat check and valet parking, which are provided to patrons of casinos and racetrack slot operations. Non-gaming expenses increased this fiscal year by \$48 million, to a total of \$231 million. This increase is directly attributable to the opening of Fallsview, which provides an array of non-gaming amenities not available at Casino Niagara. Fallsview's non-gaming amenities include a hotel, entertainment centre, retail, food and bar facilities, wedding chapel and spa.

Gaming and Lottery Operations

Gaming and lottery operations expenses are \$696 million, \$29 million higher than the previous year, almost entirely due to expenditures associated with the new Fallsview facility, which opened in June – adding 10 months of expenses for fiscal 2005.

Lottery Prizes

Lottery prize costs also increased this year by \$4 million to \$1.2 billion, primarily due to increased revenues – \$57 million ahead of prior year. Lottery prize costs also vary according to the mix of product revenues and the jackpot levels achieved. This year's most significant changes were to LOTTO 6/49 and LOTTO SUPER 7. As part of the new LOTTO 6/49 game launch, minimum jackpots are no longer guaranteed. Last year, these jackpot guarantees required \$26 million of additional prize funding. LOTTO SUPER 7 bonus jackpots also required less additional prize funding in fiscal 2005 – \$29 million less than in the previous year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Commissions

Commissions – fees paid to lottery retailers, bingo hall operators, municipalities, racetrack owners and horse people – are \$541 million this year, \$4 million less than the previous year, due to lower charity casino and racetrack revenues.

Marketing and Promotion

Total marketing and promotion expenses of \$244 million are just under last year's total of \$248 million. This expense category includes costs of entertainment, shuttle buses, signage, direct mail, miscellaneous prizes and promotional items and payroll costs associated with various marketing departments as well as newspaper, radio and television advertising. Lotteries' marketing and promotion expenses are \$6 million higher than the prior year in support of the launch of the new LOTTO 6/49 and enhanced ENCORE games. Marketing and promotion spending for charity casinos and racetrack slot operations is \$71 million, \$9 million less than the prior year, primarily due to cost containment efforts. Despite the opening of Fallsview, total consolidated commercial casino marketing and promotion spending was \$1 million less than last year. The Niagara properties spent a combined \$2 million more than the single facility did during the previous year. But this increase was more than offset by a \$6-million reduction in spending at Casino Windsor due to this facility's closure during the strike period. At Casino Rama, marketing and promotion expenditures were consistent with prior year.

Operators Fees

Total operators fees paid to third party operators of commercial casinos and the slot operations at Great Blue Heron under the terms of their respective agreements were \$84 million. This represents an increase of \$16 million over the prior year and is directly attributable to the operating agreement associated with the opening of Fallsview. The full impact is offset somewhat by reduced fees at Casino Windsor, which reflect the impact of the labour disruption on revenues.

Amortization

Fiscal 2005 amortization expense is \$220 million, an increase of \$58 million when compared to fiscal 2004. This is primarily due to 10 months of amortization expense for Fallsview. Lottery amortization is

\$12 million higher than last year because of the introduction of new lottery terminals, with a full year's amortization expense being realized in fiscal 2005.

General and Administration

General and administration expenses for the year are \$210 million, up \$23 million from last year. In addition to normal general and administrative expenditures, this category includes the cost of centralized support services provided by Finance and Administration, Human Resources, Information Technology, Legal, Corporate Security and Surveillance, Executive Services and Internal Audit departments. The overall increase is primarily related to 10 months of operation for Fallsview and includes support costs similar to those listed above, such as additional information technology and human resources expenses.

Facilities

Facilities expenses include the costs of maintaining and operating charity casinos, commercial casinos and slots-at-racetrack facilities. It also includes property taxes, insurance and the costs of common areas at racetrack facilities. Total expenses for fiscal 2005 are \$197 million, which represents a \$31-million increase over prior year. While primarily attributable to the addition of Fallsview, a \$9-million increase to property tax at commercial casinos – a result of a change in assessment methodology implemented by the Municipal Property Assessment Corporation – contributed to the overall increase in this category.

Win Contribution

The win contribution paid to the Province of Ontario is the 20 per cent of the gaming revenue from each of the commercial casinos and the slot operations at the Great Blue Heron Charity Casino. The increase of \$16 million is due to a net increase in gaming revenues at the commercial casinos.

Payments to the Government of Canada

Payments to the Government of Canada include Goods and Services Tax (GST) as well as payments made on behalf of the Province of Ontario under an agreement between provincial governments and the Government of Canada whereby the federal government agrees to not

participate in the sale of lottery tickets. The net increase of \$6 million is primarily due to increased GST expense, consistent with the increased operating expenditures, as compared to prior year.

Interest and Other Income

Interest and other income of \$25 million in the current year is consistent with last year. This revenue category includes interest income, ATM revenue and credit card commissions.

Interest on Long-Term Debt

Interest on long-term debt of \$31 million is \$20 million higher than fiscal 2004. This category represents interest paid on debts incurred to finance the Casino Rama expansion (entertainment centre & hotel) and the Fallsview casino. The increase is directly related to the acquisition of Fallsview. The Corporation entered into a \$794 million loan agreement with the Ontario Financing Authority (Province of Ontario) for the financing of Fallsview on June 30, 2004.

Foreign Exchange Gain

Foreign exchange gains, predominately from buying and selling of US dollars at border properties, are \$20 million – \$3 million ahead of last year, because the overall number of US patrons increased with the Fallsview opening.

RISK MANAGEMENT

The Corporation approaches the management of risk strategically, keeping in mind the objective of optimizing total return to the shareholder, within the context of a responsible-gaming mandate. The Audit and Risk Management Committee of the Board of Directors, as part of their oversight role, are responsible for ensuring the Corporation identifies and manages risk. Status of the Corporation's risk assessment and action plans are reported to the Audit and Risk Management Committee on a quarterly basis.

The Corporation embarked on the development of a business risk management (BRM) framework in February 2005. BRM is a disciplined and integrated Corporate-wide approach to managing risks. The first step in BRM was to develop an ongoing process for the identification and assessment of key risks. The Corporation identified

its significant key risks, which include border restrictions/competition, customer satisfaction, training and development risk, and technology infrastructure risk. The BRM framework has been designed, including the risk management processes. These risk management processes incorporate components such as the governance structure, risk policy, risk tolerance, roles and responsibilities. In addition, the Corporation has integrated the BRM process with the strategic planning process. During 2005–2006, the Corporation will continue the development and implementation of the BRM framework.

LIQUIDITY AND CAPITAL RESOURCES

Cash generated from operations for the fiscal year ended March 31, 2005 is \$2 billion, which is consistent with the prior year. Funds were also provided from a bank loan secured to acquire the Fallsview casino from Falls Management Company (FMC), the developer. The initial loan balance of \$794 million is repayable over five years and bears interest at a rate of 4.4 per cent per annum. The net funds provided from financing, after repayments, are \$652 million for the year. The amount expended on investing activities, which includes capital acquisitions and construction activities, is \$894 million, \$599 million higher than last year. The most significant investing activity during the year was the acquisition of Fallsview on June 30, 2004, at a total cost of \$770 million, including subsequent construction draws. Other significant investments during the year include a merchandising program at lottery retailers, replacing lottery product playstands, signage and silent sellers, as well as slot machine replacements and additional new lottery terminals.

Direct payments to the Province of Ontario are \$1.6 billion, \$75 million higher than in the previous year. These payments represent net income adjusted for working capital requirements and capital expenditures. The following schedule summarizes cash payments to the Province of Ontario in the year, exclusive of Ontario Financing Authority principal repayments:

Cash Payment Source	2005 (\$millions)	2004 (\$millions)
Direct Payments to Province	\$ 1,629	\$ 1,553
Win Contribution	343	327
Interest on OFA loan (Fallsview)	23	–
Direct Cash Payments to Province	\$ 1,995	\$ 1,880

MANAGEMENT'S DISCUSSION AND ANALYSIS

KEY PERFORMANCE INDICATORS

The Corporation continues to focus its efforts on maximizing operational efficiencies and optimizing profits. In order to achieve this goal, the key performance indicators are useful tools for assessing critical expenses relative to revenue.

	Fiscal 2005	Fiscal 2004
EBIDA margin *		
Lotteries & Bingo	63.8 %	62.4 %
Commercial Casinos	32.1 %	37.6 %
Charity Casinos & Racetrack Slot Operations	50.7 %	51.3 %
Marketing as a % of gaming revenue **		
Lotteries & Bingo	5.0 %	4.6 %
Commercial Casinos	23.4 %	22.4 %
Charity Casinos & Racetrack Slot Operations	6.6 %	7.0 %
Payroll as a % of total revenue ***		
Lotteries & Bingo	2.2 %	2.3 %
Commercial Casinos	28.4 %	27.3 %
Charity Casinos & Racetrack Slot Operations	15.6 %	14.4 %

* The EBIDA (earnings before interest expense, win contribution, depreciation and amortization) margin is a common measure used in the gaming industry.

** Marketing costs include promotional allowances, promotions, advertising and corporate marketing. These costs are divided by gaming revenue.

Gaming revenue includes revenue from lottery and bingo games, as well as, slot and table game operations, but excludes all non-gaming revenue.

*** Payroll as a percentage of total revenue is derived by dividing payroll and benefit costs by total revenue.

Both marketing and payroll indicators represent key cost drivers of the Corporation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RECONCILIATION OF EBIDA TO NET INCOME AS REFERENCED IN NOTE 12

The items listed represent the income and expense amounts required to reconcile EBIDA with net income as defined under Canadian generally accepted accounting principles (GAAP). This information should be read in conjunction with Note 12 of the Consolidated Financial Statements.

	2005	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
EBIDA	\$ 709,566	\$ 592,462	\$ 1,030,743	\$ 2,332,771	
Amortization	(23,705)	(116,634)	(79,455)	(219,794)	
Interest expense	–	(31,472)	–	(31,472)	
Win contribution	–	(319,958)	(23,281)	(343,239)	
Reallocation of support services and inter-company activity	(466)	(687)	2,854	1,701	
Net income as referenced in note 12	\$ 685,395	\$ 123,711	\$ 930,861	\$ 1,739,967	
	2004				
EBIDA	\$ 660,743	\$ 651,549	\$ 1,046,072	\$ 2,358,364	
Amortization	(12,109)	(71,106)	(78,993)	(162,208)	
Interest expense	–	(11,577)	–	(11,577)	
Win contribution	–	(306,638)	(20,648)	(327,286)	
Reallocation of support services and inter-company activity	1,386	(781)	(246)	359	
Net income as referenced in note 12	\$ 650,020	\$ 261,447	\$ 946,185	\$ 1,857,652	

RECONCILIATION OF TOTAL REVENUE TO REVENUE AS REFERENCED IN NOTE 12

The items listed represent the income and expense amounts required to reconcile total revenue with revenue as referenced in Note 12 and defined under Canadian GAAP. This information should be read in conjunction with Note 12 of the Consolidated Financial Statements.

	2005	Lotteries & Bingo	Commercial Casinos	Charity Casinos & Racetrack Slot Operations	Total
Total revenue	\$ 1,111,716	\$ 1,844,985	\$ 2,031,161	\$ 4,987,862	
Lottery prizes	1,225,196	–	–	1,225,196	
Interest and other income	(3,989)	(13,059)	(8,166)	(25,214)	
Foreign exchange loss (gain)	3	(15,411)	(4,215)	(19,623)	
Reallocation of support services	1,008	(737)	4,808	5,079	
Revenue as referenced in note 12	\$ 2,333,934	\$ 1,815,778	\$ 2,023,588	\$ 6,173,300	
	2004				
Total revenue	\$ 1,058,732	\$ 1,734,432	\$ 2,037,828	\$ 4,830,992	
Lottery prizes	1,220,881	–	–	1,220,881	
Interest and other income	(3,822)	(13,865)	(8,091)	(25,778)	
Foreign exchange loss (gain)	(9)	(13,890)	(2,510)	(16,409)	
Reallocation of support services	748	(824)	3,685	3,609	
Revenue as referenced in note 12	\$ 2,276,530	\$ 1,705,853	\$ 2,030,912	\$ 6,013,295	

MANAGEMENT'S DISCUSSION AND ANALYSIS

The EBIDA margin for lotteries and bingo for fiscal 2005 has increased from prior year due to a combination of higher revenues, discussed earlier, and higher net income. The EBIDA margin for commercial casinos is down significantly, as the higher revenues attributable to Fallsview did not offset the increased cost of operating two Niagara properties. The EBIDA margin for charity casino and racetrack slot operations is slightly below last year, as both revenue and net profit decreased in relation to 2004.

Marketing as a percentage of gaming revenue for lotteries and bingo increased from last year, as overall marketing costs increased, due in part to the launch of the new LOTTO 6/49 and ENCORE. For commercial casinos, marketing as a percentage of gaming revenue is up from last year. While the commercial casino marketing and promotion expense is consistent with prior year, promotional allowances, particularly at Casino Rama and the newly opened Niagara Fallsview, are higher. Charity casino and racetrack slot operations marketing costs are down from the prior year, due to cost containment.

Payroll costs at the commercial casinos is higher due primarily to the addition of Fallsview. While total revenue for the commercial casinos

was higher than prior year, it did not increase proportionately to payroll costs. Payroll as a percentage of total revenue is higher for charity casinos and racetrack slot operations due primarily to a full year of payroll costs incurred at the Slots at Grand River Raceway and the expanded Slots at Western Fair Raceway.

In addition to the above listed indicators, market share analysis is undertaken on an on-going basis at Casino Windsor and the Niagara casinos. Casino Windsor's market share has declined since 1999 as three Detroit-based casinos opened in the 17 months between July 1999 and November 2000.

Competition for the Niagara casinos, from across the border in New York State, grew considerably during fiscal 2005. Seneca Allegany Casino opened in April 2004, bringing the total New York State full-service casinos in the Niagara region to four. In addition, four New York racetracks offer VLTs, with plans to open more in 2005. In addition to increased competition, on-going border issues and a strong Canadian dollar continue to depress the number of US patrons who visit these border locales.

FEES PAID TO EXTERNAL AUDITORS

For the fiscal year ended March 31, 2005, the Corporation retained its independent auditors, Grant Thornton LLP, KPMG LLP and Ernst and Young LLP to provide services in the categories and amounts shown below.

	Grant Thornton	KPMG	Ernst & Young	Fiscal 2005 Total	Fiscal 2004 Total
Audit services	\$ 231,301	\$ 582,490	\$ 22,427	\$ 836,218	\$ 867,792
Audit-related services	127,020	138,575	—	265,595	81,190
Tax services	—	49,455	—	49,455	165,530
Other services	115,738	204,058	—	319,796	386,936
Total of all services	\$ 474,059	\$ 974,578	\$ 22,427	\$ 1,471,064	\$ 1,501,448

BOARD OF DIRECTORS

Timothy Reid, Chair

February 23, 2004 – February 22, 2007

Perry Anglin

January 27, 2005 – January 26, 2008

Cheryl Byrne

February 1, 2001 – August 1, 2004

Ronald Fotheringham

August 25, 2004 – August 24, 2007

Peter Philip Mercer

December 21, 2004 – December 20, 2007

Lou Panontin

January 20, 2003 – January 19, 2006

Nick Perpick

January 13, 2002 – January 12, 2005

Gary Reinblatt

January 13, 2002 – January 12, 2005

Michelle Samson-Doe!

July 5, 2004 – July 4, 2007

Ravi Shukla

January 23, 2002 – January 22, 2005

Beverly Topping

July 5, 2004 – July 4, 2007



**Ontario Lottery and
Gaming Corporation**

**Société des loteries et
des jeux de l'Ontario**

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TDD 1 800 563 5357
The Ontario Problem Gambling Helpline
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